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EDITORIAL

As We See It

If the world escapes the tortures of a third world war, it will not be due to the discovery of any great new principle of harmony among men. Neither will it, in our judgment, be the outgrowth of any type of super-national organization which will, within rather broad limits, rule the world. If one looks carefully beneath the surface one finds about the same old lines of force operating in the international field. They may bear different names, and they may be dressed up in new raiment, but their identity is easily established.

The United Nations has not as yet suffered the fate of the League of Nations. It has even made quite a showing in recent months in the Korean situation. It is clear enough, however, that the United Nations which appointed General MacArthur Commander-in-Chief in Korea, and which took various other steps which succeeded in preventing the action in Korea taking on and holding the appearance of what it really was for the most part—intervention by the United States—was in reality, a group of nations, perhaps we should say, the group of nations, which lie outside the Russian orbit. What we really had was Russia and its satellites, on the one hand, and the remainder of the world, with a few exceptions, on the other. The Kremlin, for reasons of its own, and the puppet regimes of the Kremlin, preferred to remain relatively inactive—as did almost all the other nations except the United States of America. A real world organization to keep the peace or to rule the world has not yet put in its appearance.

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Inflation, Deflation and The Stock Market

By FRANCIS W. LaFARGE*
Partner, Clark, Dodge & Co.
Members, New York Stock Exchange

After weighing conditions affecting stock prices, Mr. LaFarge expresses view a great many things are likely to happen which are not conducive to upward price movement. Says market, at present level, is in somewhat vulnerable condition and, at least on an intermediate basis, "it is a better sale than a purchase." Sees some deflation possible over next six or nine months.

I would like to explain one thing about my thinking, and that is that I start basically from the technical point of view. However, after struggling with the technical side of the market for a little over 20 years, I came to the conclusion sometime ago that that is by no means the whole story.

Francis W. LaFarge

However, I still start from there, because I think it is a very good guidepost. If you think the market is technically vulnerable to a decline, then you can go and look at the rest of the picture — political, economic, and the rest—and try and find out whether there is sufficient justification for a large decline or a fairly moderate one. Vice versa, if you think from a technical point of view the market has reached a very strong position, then you go and look at the rest of the picture to see whether you are having a turn for a good intermedial recovery in a bear market or a turn into a new bull market. As to the present technical structure of the market, it is obvious that a 37-point advance in the short period of three months creates a certain amount of vulnerability in the market. That is only too obvious. However, there are other signs that have begun to appear, starting roughly about three weeks ago and

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*A talk by Mr. LaFarge at a meeting of the Association of Customers' Brokers, New York City, Oct. 17, 1950.

What Controls Do We Need?

By LEON H. KEYSERLING*
Chairman, Council of Economic Advisers

Leading Administration economist warns against blindly repeating all-out price controls and mobilization as followed after Pearl Harbor. Says imposition of drastic controls now would lead to disaster, and, as alternative, advocates greater production with taxation only high enough to combat inflation, but not so high as to dampen production incentive. Calls for sacrifices by labor, agriculture and business, "working together."

In the 18th century, modern democracy was born. In the 19th, it took root in the minds and hearts of the vast majority throughout the civilized world. Within the 20th century—within the lifetime of almost everybody in this gathering—modern democracy is being challenged for the third time.

Leon H. Keyserling

This third challenge is more immense than any that came before. It is supported by greater natural resources and population, more armed might, more inflexible determination, and more calculating cunning.

Against this challenge, there are pitted the free peoples of the world. History has made the United States the central supporting tower in this fortress of freedom. And this time, we are striving to win, not through war, but through resisting aggression early enough to achieve peace.

The leadership which our nation has righteously assumed cannot be experienced by government alone, business alone, workers alone, or farmers alone. It is a task for the whole American people, 151 million strong, welded together by a common purpose which must rest on mutual understanding.

The American people do not need to be goaded into making this effort. We all know that it requires all-out measures, and not half-way measures. We all know that

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*An address by Mr. Keyserling at the New York "Herald-Tribune" Forum, New York City, Oct. 23, 1950.

IBA CONVENTION—The Investment Bankers Association of America will hold its Annual Convention at Hollywood, Fla., beginning November 26. The slate of new officers and other information pertaining to the Convention will be found on page 27.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

The Atlantic and Danville Railway Company First Mortgage 3s of 1999—Henry B. Gersten, of Gersten & Frenkel, New York City. (Page 2)

Shepard-Niles Crane and Hoist Corp.—Everett W. Snyder, E. W. Snyder & Co., Syracuse, N. Y. (Page 2)

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HENRY B. GERSTEN
Gersten & Frenkel, N. Y. City

(The Atlantic & Danville Railway Company First Mortgage 3s due 1999)

The security I like best is unique, because it is a well-secured first mortgage railroad bond selling below bankruptcy prices, has tremendous possibilities for price appreciation, and at the same time has a sound financial basis.

Henry B. Gersten

For 50 years the Southern Railway ran the Atlantic & Danville as a leased line. When the lease expired in July, 1949, the Southern failed to renew the lease, choosing to use an alternate, more circuitous route from Norfolk to Danville, Va. As a result of litigation against the Southern for allowing the properties to deteriorate, a settlement was reached, providing the Atlantic & Danville with $3 million in cash and favorable traffic exchange regulations. Part of this cash was used to make a payment of $400 on account of principal on each first mortgage bond, thus reducing the first lien from $3,925,000 to $2,355,000. A principal payment was also made on the second lien amounting to $250 per bond, reducing the second mortgage from $1,525,000 to $1,143,750. This amounted to an aggregate debt reduction of about $9,600 per mile. At the same time the maturities were extended 50 years to 1999 and the interest reduced to 3%. The interest is contingent upon earnings until July, 1954, and cumulative to the extent of 9%. From July, 1954, until maturity, the bond interest will be payable semi-annually at the fixed rate of 3% per annum. The A. & D. was also permitted to discontinue all passenger service, which was unprofitable.

In order to put the railroad on a modern, efficient basis, six new 1-500-h.p. Diesel locomotives were purchased for a down payment of $281,000 plus an additional $112,400 as the first of five annual payments.

Since the road started independent operations in August, 1949, the trend of monthly operating revenues has been very encouraging. The management has been aggressive about soliciting traffic and has been adding new customers at a highly satisfactory rate. Even during the summer months, when business is at its lowest ebb in the territory served by the A. & D., and when losses were expected almost as a certainty, the road operated in the black each month. **August turned up with a surprising $17,195 bottom line. The net income for the first eight months totaled around $49,000.** The fall months are usually the best of the year for the territory, and important revenue gains are anticipated. **The indications are that the net for the final four months will exceed that of the previous eight months.**

Total combined first and second mortgage interest requirements are $105,000 per annum. On the firsts alone it amounts to a little under $5,900 per month. Recent balance sheet figures are excellent. Current assets were over $900,000, including $784,000 in cash items. Current liabilities were $280,000. I would call this a solvent road. If we assume that the territory is growing, and there are good reasons to believe this is a reality, we should expect revenues to be on the uptrend for some time to come.

The Interstate Commerce Commission made the following comment in its opinion on the securities modification proceedings:

"The first lien . . . will eventually be improved to the extent of improvements to the property through purchase of road and equipment out of earnings. The effect of the depreciation and obsolescence fund account is to create a reserve for capital expenditures, with authority also to use the fund for the retirement of bonds. This method of providing for capital requirements, although not involving large amounts, should have some stabilizing influence upon the value of the bonds."

The charges for maintenance of way and structures combined with maintenance of equipment have averaged about $32,000 per month. Heavy expenditures for track-laying, surfacing, ties, repairs to bridges and trestles tend to add to the intrinsic value of the first mortgage bonds.

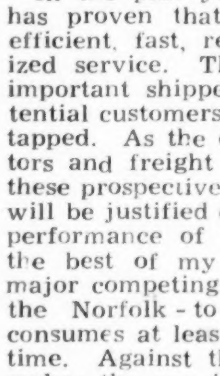
In the past year the A. & D. has proven that it can provide efficient, fast, reliable, personalized service. The deep well of important shippers, who are potential customers, has barely been tapped. As the company's solicitors and freight agents approach these prospective customers, there will be justified confidence in the performance of the service. To the best of my knowledge, the major competing railroad serving the Norfolk-to-Danville route consumes at least 36 hours travel time. Against this, the A. & D. makes the run in less than nine hours.

Are you looking for a well-secured first mortgage railroad bond where the road and equipment is valued at 2½ times the amount of the issue; where the ratio of cash to current liabilities is an eye-opening 2.8-to-1; where the capacity to earn and pay the interest is quite apparent; and which can be purchased around 35 cents on the dollar? If you are, there is just such an issue traded over-the-counter—the Atlantic & Danville Railway 1st 3/99.

EVERETT W. SNYDER
E. W. Snyder & Co., Syracuse, N. Y.

(Shepard-Niles Crane & Hoist Corp.)

Early in 1943, in studying dividend reports, I noticed that the company I shall discuss had just declared a rather liberal cash payment. I noted further that in the preceding three years regulars and extras amounted to $5, $6 and $4 per share. And the stock was selling in the middle 30's. It seemed that there must be a catch somewhere.



E. W. Snyder

The manuals had only this to say: Shepard-Niles Crane & Hoist Corporation. Plant located at Montour Falls, New York. Engaged in the manufacture and sale of electric cranes and hoists and allied products. Dividends paid in 20 of the preceding 23 years. Current position satisfactory. Capitalization 56,319 shares of common stock.

I telephoned to an officer of the company, who courteously told me that the dividends were earned and therefore paid and extended an invitation to me to visit the plant, together with any present or prospective stockholders.

At Montour Falls, in company with a good client, we saw the factory in operation, making labor-saving devices — little cranes lifting and moving quarter-ton loads with no more effort than that required to raise or lower a window shade. And bigger jobs—all the way up to a mammoth traveling crane capable of picking up and moving a fully loaded freight car. Shepard-Niles Crane had then and still has a line of products essential to American industry, with labor conditions what they are.

Here, obviously was a definitely undervalued equity and those of our clients who agreed are a happy lot today. For instance, Miss A. who invested $1,915 in 50 shares in 1943, has in the succeeding years received $2,575 in cash dividends. She now, by virtue of a 5-for-1 split in 1947, owns 250 shares with a current market value of $4,312.50. And Mr. M. the purchaser of 100 shares at a later date at an initial investment of $6,100, has received $3,135 in dividends, sold 200 shares after the split-up, leaving $3,048 still in the stock with a value of $5,175.

I realize that readers of this interesting series of articles are more concerned in what's good from here on, rather than in a tale of something that might be water over the dam. I would not venture to predict for Shepard-Nines Crane, during the next seven years, a repetition of the performance of the past seven. But I was asked to tell about the security I like best. Here's one that has been good to me and my clients and I think it will continue to be. Shepard-Niles Crane & Hoist Corp. is quoted and traded in the unlisted market.

For those who favor companies of moderate capitalization with corresponding high per share earnings and liberal dividends, may I suggest a study of Arthur G. McKee & Co. and Electric Controller & Mfg. Co. And for outstanding records of uninterrupted payments—Plymouth Cordage Co. and Scovill Manufacturing Co., the former since 1860 and the latter since 1856. I have recommended them for many years and these stocks are included in most portfolios under my guidance.

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Financial Implications Of Rearmament

By B. H. BECKHART*

Professor of Banking, Graduate School of Business, Columbia University

Dr. Beckhart, holding inflation can be avoided if non-military demand falls as military demand rises, favors fiscal and monetary controls as against direct wage and price controls. Says efforts should be made not only to balance national and local budgets but to have surpluses. Suggests margin requirements in securities transactions might be raised, and holds consumer and real estate credit curbs will play role in combating inflation. Urges imposition of general credit controls along with long-term government financing, and denounces artificial interest rates.

America's Responsibilities

When the history of the present period is written we, as Americans, can take great pride in the decisive manner in which our country responded to the challenge of Communist imperialism in crossing the 38th parallel on the 25th of June. We quickly rose to our responsibilities of world leadership. We proved ourselves firm and reliable allies of the free peoples of the world. We wisely rejected the path of appeasement—a course of action that would have dismayed our friends and made World War III inevitable.

B. H. Beckhart

In moving to suppress the forces of aggression and to maintain the rule of law, the United States acted in accordance with a resolution of the Security Council and in cooperation with 52 members of the United Nations. The fact that our forces, along with those of other nations, fought under the banners of the world organization was an event of great historical significance. It gives us cause for optimistic hope that the United Nations can, in time, free the peoples of the world from fear of war and from fear of enslavement by aggressive totalitarian powers.

The Burden of Rearmament

The duties and responsibilities, which we as a nation did not seek but which we cannot evade, will, of necessity, mean heavy economic and financial burdens for the American economy. The economic burden is measured by human casualties, by the materials and services diverted to rearmament, and by the growing inability of the economy to repair and to maintain its peace-time equipment of factories, houses, roads, etc. The financial burden of rearmament is measured by increased tax levies, by the increase in the Federal debt and, above all, by the extent to which the economy experiences inflation.

The Threat of Inflation

The magnitude and speed of the rearmament program, imposed on top of a gigantic civilian demand, makes the threat of inflation a very real danger. The economy is working at top speed. There is virtually no unemployment and little unused capacity. Consumers possess a large volume of liquid assets, are fully aware of the effects of inflation, and wish to hedge against its consequences. But the very process of hedging against inflation stimulates further inflation.

Despite a widespread awareness of the meaning of inflation, despite the lack of elasticity in the economy, despite rising incomes and a large volume of liquid assets, inflation is not inevitable. Present inflationary trends can be checked and future inflation can be avoided. To do so the American people must be willing to subject themselves to vigorous self-discipline and to subordinate the short-run interests of the individual to the welfare of the whole nation.

Avoidance of Inflation

Inflation can be avoided if non-military demand falls as military demand rises. Non-military demand can be reduced either by the use of direct controls and/or by use of fiscal and monetary controls.[1] Direct controls, with their paraphernalia of price control, rationing and an overall allocation of materials, are not justified except in case of global war. Even then direct controls carry serious implications for a democracy. They involve the complete direction of the economy, are relatively inflexible, dampen incentives and increase the difficulties of returning to a free market economy in the post-emergency period.

Importance of Fiscal and Monetary Controls

Even in case of global war, direct controls are no substitute for a vigorous use of fiscal and monetary controls, which are essential in checking the use of the existing money volume, and in

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*An address by Prof. Beckhart at the 64th Annual Convention of the Iowa Bankers Association, Des Moines, Iowa, Oct. 24, 1950.

[1] The term "monetary controls" is used in the broad sense of embracing all action in the field of credit by the Federal Reserve System.

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The Issues Facing Us

By EDWIN G. NOURSE*
Former Chairman, Council of Economic Advisers

Warning we have not solved problem of inflation, either before or after Korean episode and the battle is still one of catch-as-catch-can, Dr. Nourse reviews manpower and production difficulties as they affect prices, incomes, taxes and controls. Sees conflicts in getting maximum war production and, at same time, avoiding inflationary complications. Explains how peacetime controls impair flexibilty of market needed for military preparedness but, nevertheless upholds credit controls.

It has been suggested to me that you would like to have my views as to the business prospects and the probable impact of governmental policies and programs that are under way or in the process of forming. Now this is an assignment which I find very congenial. I want to warn you that what I say is not to be taken at all as prophecy or "inside dope" by someone who has just come from the Washington scene. What I want to do is to highlight what I regard as the most significant issues, show why they seem to me to be important, and what results can be expected if one or another course is followed. Only on the basis of an understanding of these issues and trends can the businessman decide how to conduct his business and the voter decide how to cast his vote; also how he will raise his voice in community discussion or "raise hell" with his Congressman.

Edwin G. Nourse

The Long-Run Issue Is Prosperity

If we take Jan. 1, 1950 as the mid-century point, the basic issue—always No. 1 with both the businessman and the economist—was how to get sustained high use of our productive resources without the recurrent interruptions and wastes of depressions, big and little. Last January we were still working on this problem primarily in a peace time setting. To be sure, the consequences of World War II had not been fully liquidated, and Joe Stalin was continuing to complicate the process with something called the "cold war." But, by and large, we felt that we could take care of that military expense as part of the country's cost of doing business in a real world, like your cost for sprinkler systems and night watchmen. The reversal of disarmament was annoying and wasteful, but still quite bearable, and not inconsistent with a very high level of domestic prosperity.

What was most disturbing at that time was that there still were inflationary forces which had not been brought fully under control. The conservative view was that we would have to adopt an economy program by government and balance the budget if inflation was to be checked and a solvent government and a sound dollar made the foundation of sustained prosperity as contemplated in the Employment Act. The Administration view was more complacent. The President argued in his January Economic Report to the Congress that economic expansion fed by a liberal spending program would cause output to expand so rapidly that the budget would soon come into a balanced or even surplus position. This would come about automatically as the tax yield from rising personal and business incomes expanded.

Stated in other terms, the optimistic argument was that the gross national product would grow so fast as to enable us to take care of the remaining costs of World War II, the drain of the cold war, a vigorous government program of conserving and developing national resources, and still leave to consumers a disposable income that would give them rapidly advancing standards of living. This was a very attractive theory and, as a social scientist, I feel that it is unfortunate that it was not possible to carry the thing through as a laboratory experiment and see whether Professor Truman was right. We might have learned a lot.

The Short-Run Issue Is Preparedness

Now, if we take as the mid-century mark not Jan. 1, 1950 but the coming Dec. 31, we see this long-term peacetime issue of how to achieve stabilized prosperity pushed into the background. In its place, we now have a short-term or immediate issue of how to incorporate war or near-war into our policies and programs for dealing with the economy. The prime question becomes: how short a term should be taken as the guide to our present planning? Related questions are: how big a military effort are we going to undertake, and what effect will such a military program have on the conduct of business and the conditions of our private lives—both our standards of living and our freedoms of choice in action.

In effect, two answers to these questions are being proposed by different persons in government and in private life. One is that we shall take a two or three-year perspective and put ourselves in a position to bear the major brunt of World War III by about 1953. The other is that we take at least a 10-year perspective, and scale our military effort so that it could be borne by the economy without breakdown and tolerated by the people year after year without revolt or serious loss of moral. The fact that we could mount the military strength needed to preclude a quick victory to an aggressor and could at the same time keep our democratic capitalistic system running smoothly would make it utterly foolhardy for the Kremlin to open a war at any time during the decade. Korea demonstrated again for Stalin's benefit the fallacy of the quick-war dream. It showed again the reserve strength of the United States. If we now hit a 10-year military-industrial stride, the Soviets might even abate their military threat much sooner than 1960. But even if they did not, such a policy would be one that we could continue indefinitely and which would be compatible with full employment and sustained high production.

These two policies, shorter or longer-range, are not to clear-cut even in the minds of many of the people who argue for one or for the other. The battle is still one of catch-as-catch-can. But it is moving pretty rapidly forward to commitments—on size of force, terms of draft, stockpiling, controls, and taxes. When the 82nd Congress convenes, with its new membership and its interpretation of the meaning of the election choices, it will move rapidly to the stage where the die will be cast. In fact, the 81st may jump the gun during December. Then the immediate problem of businessmen will be how to live most comfortably and successfully under whatever kind of national program is settled on.

With this as a background, I will now discuss the outlook in three general areas which seem to me to have most practical and concrete significance to the owner of a small business or the executive of a large concern. These cover manpower and production; prices, incomes, and taxes, and government controls. All I can do in the time available is to hit some high spots, hoping that what I say may be helpful to your further thinking.

Manpower and Production

The first general aspect of the world we're going to live in concerns the technical side of the picture, or physical supply. This means quantity and quality of available manpower, adequacy of goods and machinery to work with, bottlenecks, and conversion problems.

With the military program as it is shaping up, labor is already tight and bound to get tighter if the military program is expanded as now proposed. We have just under a million and a half in the armed forces at present and are planning at least to double that number as fast as possible. Taking a mere million and a half out of a labor force of about 65 million may seem like a small matter. But look who they are! Not the marginal workers at the bot-

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*Address by Dr. Nourse, before the Wisconsin State Chamber of Commerce, Milwaukee, Wis., Oct. 24, 1950.

The Over-the-Counter Market in Stocks

By OLIVER J. TROSTER*
Troster, Currie and Summers, New York City

Col. Troster explains reasons for existence of the over-the-counter market and essential differences between this and market in listed securities. Says over-the-counter market performs merchandising function, by way of circulars, telephone calls, newspaper advertising, and like. Stresses public service of over-the-counter market in making securities markets and shows how transactions are performed merely to build up good will. Lists three types of trading departments in over-the-counter house, and explains nature of competition in securities trading. Distinguishes between brokers and dealers.

I believe in New York because to me it epitomizes capitalism, free enterprise. Wall Street is here, and, of course, Wall Street is known the world over as an instrument of good or bad depending on the point of view. All too many people seem to think: "Well, capitalism is all right; free enterprise is all right," but just like a cook with a salad — they immediately try to dress it up! Some want to take capitalism and sprinkle it liberally with either communism, or with socialism, or some other ism that more or less neutralizes the effectiveness of the system.

Oliver J. Troster

I have many preacher friends; I have many friends who are teachers, and I have argued at length with many of them over socialism, capitalism, communism, and all the in-between varieties. It is only recently since communism has been brought to the fore so strikingly, that many of them have begun to realize that possibly there is a closer link between socialism and communism than had previously been thought.

I will try not to get too wrapped up in that subject although I would like to. Do you remember the story of a newspaper editor assigning a topic to an editorial writer, and the writer returning and saying, "Here is the editorial. I am sorry it is so long—I didn't have time to write a short one." My talk will be very long this morning, I didn't have time to write a short one!

I am in Wall Street. My address is 74 Trinity Place. Why do I say I am in Wall Street? If I am in Wall Street, how about the security dealers in Jersey City? And why not my correspondent in St. Louis? And in Denver? And so on around the world? We say "in Wall Street" as indicating a business, indicating a system, indicating a way of life! To me, "Wall Street" is just a symbol of capitalism, the same as the "Stars and Stripes" are the symbol representing the United States. You can't say that the flag is the United States of America, but it is a symbol. Because "Wall Street" is a symbol I hate to see it trampled in the dust, especially by those in high places, either facetiously or otherwise.

There is a man who is going to be the American Ambassador to Mexico, I see by the papers, who not too long ago in talking to a group here said, "Wall Street! Take it away; you can have it. It would give us more room to do some of the things we would like to do." Well, of course, he may have said that with his tongue in his cheek, or he may not have meant it, but it is remarks of that kind that really hurt all of us.

Now, why do I believe in Wall Street? Well, what system would you have substituted for it a hundred years ago that would have brought us to the point where we are now? What would you substitute now that would carry on beyond this point, and how would you do it?

One of the hardest things in the world to do is to take something away from a lot of people and then try to give it back to them. If the freedoms, privileges and systems you have been studying about are taken away, it is going to be difficult ever to get them back.

But to get onto the subject of Over-the-Counter quotations. Now, I assume that Mr. Walker in his talk went into considerable detail about the number of issues that were traded over-the-counter. He may even have told you about the origin of the name "over-the-counter," but having been one of the people present at the birth of the name, I will tell you my version of it, and then you can argue as to whether it is a good name or not.

Back in the days when the Attorney General of the State of New York was Mr. Ottinger, who was breathing hot on the necks of everybody in Wall Street for misdeeds or supposed misdeeds, we came to realize that the name "unlisted securities" carried a negative connotation. It was anti-something. It was not a positive term.

Mr. F. H. Hatch, a member of the firm of Frederick H. Hatch & Co., the oldest over-the-counter house in New York, said he could remember that sales of government bonds were being made to people as they came into his father's brokerage office right after the Civil War, "over-the-

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*A lecture given on Aug. 16, the 17th in a series on The New York Securities Markets and their Operation, sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Total industrial production last week achieved the highest point since the close of World War II. Output was stimulated in good measure by the steel industry, which for the fourth consecutive week reported a new all-time record level at 102% of capacity of steel ingots and castings. The metal is continuing to pour from the nation's furnaces in record volume and October production, according to "Steel," the metalworking weekly, is expected to break the monthly record of 8,551,887 tons established in May of this year.

The bulk of steel production continues channeled into civilian goods manufacturing lines, but emergency needs are taking a steadily rising percentage of total output, states this trade magazine. Military and related requirements are now beginning to reach placement stage in volume. However, due to the 45-day lead time required on DO orders, new military business cannot be handled before first quarter next year. Some military business placed last week will go into December rolling schedules and military orders placed a while back and subsequently certified with DO ratings will be handled before the current quarter closes. Certification limit for these older military orders has been extended to Oct. 31.

Broadly, the only business now being accepted by the mills is rated tonnage. Except in a few lines, the steelmakers have not opened books for first quarter on regular commercial business. And they are sold out for the remainder of this year, "Steel" asserts. As a result, with emergency rated tonnage taking increasing rolling time, substantial order carryovers into first quarter of 1951 are indicated in all products. Civilian consumers are scrambling for tonnage to sustain operations. The gray and conversion markets are providing some respite in the shortage, but tonnage from these directions falls far short of filling requirements. Credit curbs and other government controls may tend to ease demand for steel for civilian purposes as time passes, but it will be some weeks before the effect of these regulations becomes apparent.

On Friday, last, it was reported that 15,000 workers in the eight East Coast shipyards of the Bethlehem Steel Co. will seek a "healthy" across-the-board increase in a wage review to begin late in November.

The Goodyear Tire and Rubber Co. on the same day announced wage increases averaging 12 cents an hour for some 20,000 workers at plants in 10 cities.

The new wage contract with the United Rubber Workers, CIO, was signed here last night after six weeks of negotiations and is expected to set the pattern for the rubber industry.

In keeping with higher production levels, continued claims for unemployment insurance dropped in the week ended Oct. 7, 1950, by 5% to the lowest point in two years. They were about 57% below the level of a year ago. In the case of initial claims, while they rose 15% the past week, they were but half the total of a year earlier.

Steel Output This Week Scheduled for Further Record Expansion

The steel industry will be a "Johnny come lately" on wage hikes and price increases, according to "The Iron Age," national metalworking weekly, in its latest summary of the steel trade. The boom was lowered sometime ago by auto companies, more recently by electrical equipment concerns and a few weeks ago by aluminum firms. Now it is the steel industry's turn.

Steel costs are up since the last general price increase in 1949. Prices on equipment, scrap, copper, tin, zinc, paper, lumber, pig iron, coal wages, oil and red tape are up considerably in the past ten months.

Steel labor will get an average of 12½ to 13 cents an hour raise in base rates and an additional 5 cents in fringe concessions making a total of about 17½ to 18 cents an hour. Fringe will include changes in holidays, vacations, job classifications and pensions.

Steel prices will go up $6 to $10 a ton with the average somewhere near $8 a ton or about 10%. The changes will take care of raw material advances, labor increase (including white collar workers), uneconomical production due to defense orders and expansion cost, most of which has to come from profits.

Expected this week was announcement of NPA approval of steel requirements for freight car builders and the oil and coal mining industries, respectively. These programs, states this trade paper, will take precedence over other business after DO orders have been filled.

The impact of DO orders, plus these essential nonmilitary orders, will cause some steel producers to change their product mix for the first quarter of next year. One producer has already decided to slash sheet output 15%, tinplate 6% and semi-finished bars 10% in order to turn out more plates and shapes. Others are laying similar plans.

Although the greatest impact so far has fallen on plates, the 5% limit set by NPA on sheets is also inadequate. This will come as grim news to many manufacturers who are already indulging in expensive conversion deals, paying premium prices, and in some cases even fabulous prices in the gray market in a frantic scramble for cold-rolled sheets, this trade authority points out.

Consumers who have been buying ingots from one source and paying a fee to have them converted into sheets by another mill are now being informed by some converters that they will have to supply slabs and billets instead of ingots for first quarter conversion. This is bound to hurt because there isn't enough bloom-

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Investing Media to Be Discussed

Scott, May, and Loss to Participate in Town Hall Panel.

Dr. Edgar Scott, co-author with Emily Kimbrough of "How To Lay A Nest Egg" and governor of the Philadelphia-Baltimore Stock Exchange, will open the Tuesday, Oct. 31 session of the financial seminar being presented jointly by Town Hall and the Federation of Women Shareholders in American Business, Inc.

Building the program around the subject, "Where Do I Go to Invest My Dollars?", Dr. Scott will discuss financial market places and how they look. The March of Time film "Money At Work" will be shown in conjunction with his talk.

A. Wilfred May, Executive Editor, "Commercial and Financial Chronicle," and formerly economic expert for the SEC will follow Dr. Scott with a discussion of commercial banks, savings banks and trust companies, investment bankers, dealers, brokers and their function.

What Federal protection the investor has and how the investor can guard herself against fraud will then be discussed by Louis Loss, Associate General Counsel of the Securities and Exchange Commission and lecturer in law at Yale and George Washington Universities.

COMING EVENTS

In Investment Field

Oct. 26, 1950 (New York City)
New York Group of Investment Bankers Association Annual Meeting at the Hotel Pierre.

Oct. 26-27, 1950 (Southern Pines, N. C.)
Securities Dealers of the Carolinas annual meeting and election of officers.

Oct. 30, 1950 (New York City)
Wharton School (University of Pennsylvania) Dinner in honor of Bernard F. Gimbel at the Waldorf-Astoria Hotel.

Nov. 3-4, 1950 (Miami, Fla.)
Florida Security Dealers Association Annual Meeting at the MacFadden-Deauville Hotel.

Nov. 15-16, 1950 (N. Y. City)
Association of Stock Exchange Firms' annual meeting of Board of Governors at the Waldorf-Asoria.

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 8, 1950 (New York City)
New York Security Dealers Association Silver Anniversary Dinner at the Waldorf-Astoria Hotel **(Starlight Roof).**

Dec. 21, 1950 (St. Louis, Mo.)
Mississippi Valley Group of IBA Christmas Party at the Park Plaza Hotel.

June 11-14, 1951 (Jasper Park Lodge, Alberta, Canada)
Investment Dealers Association of Canada Annual Convention.

H. W. Freeman & Co.

FORT MYERS, Fla.—Howard W. Freeman has formed H. W. Freeman & Co. with offices at 828 First Street. He was formerly a partner in Freeman, Hough & Co.

Observations . . .

By A. WILFRED MAY

Forecastability of "The Market"—1950

With attempts at stock market forecasting now being engaged in with an all-time high of intensity, it behooves us to re-examine their justification and possibilities.

Fundamentally, forecasters ruminating over "the" market now as always must face the inescapable truism that it is impossible to form conclusions about a "market" that actually is non-existent. The unreality of a market-conceived-of-as-a-unit, and the fallacy of symbolizing it through an inclusive average, are again clearly demonstrated by its self-divergent performance since the pre-Korea average peak. Standard and Poor's Corporation *Price Movements of 40 Stock Groups* discloses that 20 industries have scored advances ranging up to 22%, with 20 simultaneous offsetting declines as great as 17%. And between individual issues within industries, similarly divergent action is occurring now as it has in the past. Since 1929, in the face of a 40% decline in the general market as portrayed in the Dow Jones Industrial Average, 350 individual listed stocks nevertheless are now selling above their 1929 highs.


A. Wilfred May

So, indispensable though it may be for the forecasters to pictorialize a "the market," actually that concept is merely a fantastic mirage!

The External Imponderables

The impossibility of forecasting by means of internal market systems, and the reasons therefor, have been demonstrated in previous issues of this column. Let us here examine the possibility of successful anticipation of movements of the market—either in part or as a whole—from analyzing the *external* political, economic, and financial phenomena.

The politically-motivated tax outlook, via the threat of a post-Election so-called excess profits levy and rises in the flat corporate rate, represents an important imponderable as far as its market effects are concerned. While gradual rises in the ordinary income rate in the past have not resulted in destruction of profits, it could happen that a further pay-as-you-go-ish boost to 50% and more will actually turn out to be the long-feared profits-confiscating "wolf." And the effect of a so-called excess profits levy, whether or not it is geared to wartime stimuli, must surely be sharply divergent throughout the market as well as unpredictable.

Government Controls

Another imponderable is contained in current government interventionism—both as to kind and amount of the dose. The stock speculator is just as confused as is the housewife over whether their government's "anti-inflation" crusade really is more concerned with keeping down the price of roast beef, or holding up the price for hogs and butter.

Which Contradictory Element to Emphasize?

Are armament needs, deficit spending, and wage spiraling, on the one hand; or the nation's overproductive capacity, credit restrictions as on housing and instalment buying, etc., on the other: to be deemed the inflation-deflation determinant?

Moreover the supply situation itself seems unclear. In steel, is the forecaster to be guided by the Washington pronouncements that steel is so short that capacity must be further increased, and that rationing for civilian autos is around the corner; or, on the other hand, by the fact that automobile sales fell by 13% from August to September, and by hoarding reports supporting steel executives' insistence that their product will soon be "running out of our ears"?

It may even be asked whether the government's restrictive measures actually are wholly bearish, or whether, on the other hand they are perhaps a means of building up a later pent-up backlog of demand and continued active business such as helped to avoid a traditional postwar depression after 1945?

On which bracket of directly contradictory forces is the forecaster's emphasis to be placed?

The Inflation Dilemma of Short-Term Timing

In the "inflation" picture there are likewise many cross-currents obscuring short-term stock market prediction. On the one

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Chase National Bank Appoints New V.-Ps.

William C. Henchy of the Worth Street branch, James P. Mitchell of the West Coast district, Hamilton T. Slaight of the public utilities department, Joseph M. Walsh of the Rockefeller Center branch, and Crawford Wheeler, in charge of public relations, all Second Vice-Presidents, were promoted to Vice-Presidents of the Chase National Bank by the board of directors yesterday.

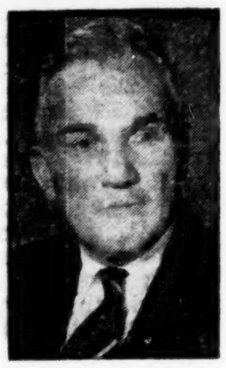
At the same time the board advanced three Assistant Cashiers, James Bloor of real estate and mortgage loan, William R. Bottenus of the trust department, and Paul F. Clarke of public utilities, to the rank of Second Vice-Presidents. Kenneth E. Hill, engineer in the petroleum department, also was appointed a Second Vice-President, and Harold French, heretofore Assistant Manager, was promoted to Manager of Garfield branch.

Other appointments to the official staff were Cornelius D. Howland, Roger M. Keefe, John B. M. Place and Douglas C. Murphy, Assistant Cashiers; John B. Dunlap, Jasper Hjelstrom, John R. Keogh, Alfred L. Lankenau, John S. O'Connell, Jack A. Peyman and James A. Ure, Assistant Managers at New York City branches, and Charles A. Ehren, William H. Lantz and James W. Watts, Assistant Managers in the foreign department.

From Washington Ahead of the News

By CARLISLE BARGERON

It is difficult for this writer to share the indignation of the New York Democrats over the alleged promise of a job to Lieutenant Governor Hanley if he fails to make the grade in the Senatorial race. I suppose this sort of stuff has been going on ever since we began having political campaigns. In fact, in the present campaign the Fair Dealers have two men running for the Senate, to this writer's knowledge, with the understanding that if they don't succeed they will get back jobs they had in Washington or their equivalent. As of this date, they will be back here to take over their old jobs in about three weeks.



Carlisle Bargeron

Had both men not understood they were to be taken care of they would not likely have let go of the juicy plums they had, and understandably so. Both of them had uphill fights. In cases such as this, men are moved not only by ambition but they have a duty to the party to perform.

The situation goes much further than this. Members of Congress will go along with the President on an unpopular issue with the understanding they are to be taken care of in the event of their defeat. Similarly, members of Congress will go along with the President, right or wrong, in the hope of being rewarded with Federal judgeships. This is the way party regularity or discipline is maintained.

I remember overhearing Shay Minton, then a Senator, telling a group of colleagues several years ago that he was damned tired of taking care of Roosevelt's dirty linen when Roosevelt was taking his own time coming forward with the promised judgeship. In those days Minton was one of the New Deal's sand bag men in the Senate. Regardless of what was sent up from the White House, Minton was in the front pitching for it, shouting the usual nonsense about the common man and the vested interests.

Well, he finally got his judgeship, was subsequently elevated to the Circuit Court of Appeals and Truman placed him on the Supreme Court.

The independent members of Congress are the ones who don't want better jobs at the hands of the Administration but who vote their convictions. They are few and far between. There is not the slightest doubt that the late Joe Robinson gave his life to the fight for Roosevelt's court packing plan on the promise he was to be named to the Supreme Court. Robinson, a high type of man, never felt exactly right about it.

A man with a job in Washington who resigns it to go back home and run against someone the Administration wants to defeat, does incur a certain amount of risk. If he makes a terribly poor showing, reveals that he has little following back in his own state, then the Washington big wigs may decide that he isn't worth fooling with. In this event he will likely get another job in Washington but not as good as he had before.

Be this as it may, the political prognosticators are showing an unusual timidity this year. They have in the past been very bold. But this year they are describing nearly every race as so close as to defy a prediction. One candidate is described as seeming to have had a slight edge but his opponent is described as having made gains in the past few days. Barring some such explosion as the famous letter of the Cleveland-Blaine campaign, "Rum, Romanism and Rebellion," the campaigns have usually jelled this late in the season and the stuff about one candidate coming up and the other going down is the bunk.

The reason for the timidity on the part of the prognosticators is the fools they made of themselves two years ago. Having made no prediction of my own at that time, I will attempt one now.

In Connecticut the Republicans will defeat Chester Bowles and Benton for Governor and Senator, respectively. Brian McMahon will be reelected to the Senate.

In New York, Dewey and Lehman will win.

In Pennsylvania, Republican Duff will defeat the incumbent Senator Myers.

In spite of the campaign against Tydings in Maryland, which has him worried, he will be reelected.

Taft will win in Ohio along with the Democratic Governor Lausche; Lucas will probably beat Dirksen in Illinois; Capehart will be reelected in Indiana; Hickenlooper in Iowa.

In Idaho, the Republicans will reelect Senator Dworshak and pick up the seat held by Glenn Taylor. Republican Nixon will defeat Helen Gahagan Douglas in California, and the Republican Bennett is likely to defeat Fair Dealer Elbert Thomas for the Senate in Utah. The Fair Dealers will hold their Senate seat in Washington; Wayne Morse will be reelected in Oregon; Republican Senator Milliken will be returned from Colorado.

On this basis, the Republicans will make a gain of five in the Senate. This will leave the Democrats with a majority of two.

The mechanics favor the Republicans in the Senatorial campaigns. I have not noticed any Republican trend in the Congressional races and doubt they will pick up more than 30 seats, not enough for control.

A Balance of Power for Peace

By FERDINAND EBERSTADT*
Chairman, F. Eberstadt & Co. Inc.
Former Vice-Chairman, War Production Board

Holding present international crisis is due to failure to come to grips with realities in restoring international balance of power as means of maintaining peace, prominent investment banker urges peace treaties wtih Germany and Japan and immediate admittance of these two nations in family of nations. Says Germany and Japan should be allowed to rearm under UN supervision. Favors rearmament of friendly nations in Far East as well as nations in North Atlantic Pact.

I

Twice in something more than a score of years we have won great military victories at tremendous cost in life and property, only to have the goals for which we fought — and which victory actually brought within our grasp — elude us as we listened "with credulity to the whispers of fancy and pursued with eagerness the phantom of hope."

Ferdinand Eberstadt

We are confused and concerned.

Our confusion is all the greater because no people ever faced up to the tragedies of war or shouldered its crushing burdens more unselfishly. We coveted no territory but our own. We sought dominion over no people but ourselves. We desired no material advantage from friend or foe. Our only objectives were to put a stop to brutality and aggression; to assure peace and tranquility in the world so that people might live in security and contentment under governments of their own selection. For the accomplishment of these worthy aims, we gave without stint — of life, of work, of property.

We won the war. Yet none of these goals has been attained. There is no peace in the world. There is no tranquility. There is no security. Far from assuring greater blessings to others, we are in grave danger of ourselves losing some of those that we have long cherished.

No wonder that we are confused and concerned.

What then has gone so wrong? How is it that a deeply peace-loving people should have so brilliantly mastered the art of winning wars and have failed so disastrously in the art of making peace? This question indicates its own answer. It is not our soldiers who have failed but our statesmen.

It is easy to blame the whole tragic business on Russia. Without doubt the men in the Kremlin are largely responsible for our predicament. But Russia's intransigeance is only part of the story. We ourselves, I believe, bear a very real share of the responsibility for the present situation because, though inspired by the noblest ideals, we have failed to come to grips with the practical realities of power and more specifically, to use an old phrase, with the realities of the "balance of power." We ignored, or disregarded, one of the hard facts of international life, namely that, in the absence of overwhelming predominance of one nation (as existed under the Roman Empire, and as presently exists in the Western Hemisphere), or of a world organization capable of laying down the rules and of determining and enforcing justice and law and order among nations, a reasonable balance of power amongst the nations is, has been and always will be, essential to the maintenance of peace. To have destroyed that balance before an adequate substitute had been created was to invite aggression and possibly war. That is exactly what we did, and, in my opinion that is the main reason why we are where we are.

Heartsick from the terrible tragedies and destruction of two world wars, "determined," as the United Nations Charter puts it, "to save succeeding generations from the scourge of war," we nobly resolved that it should never happen again. We were disgusted at the past, we longed for something new, something better, for the future. Associating the balance of power with the past, we wanted no part of it. We regarded it as synonymous with "power politics" and we wanted to be rid of that also. And so, we approached the postwar problems on a level of high but rather vague idealism, guided by our hopes for the world as it ought to be. The Russians approached them on a less elevated but more hardboiled and practical level, guided by their knowledge of the world as it is.

It may not be irrelevant to point out that in both World Wars the Captains of our Ship of State were men probably more concerned with making history than with following its lessons.

The phrase "balance of power" is an old one and to many an unpleasant one. It connotes the kind of "power politics" which we have been brought up to think of as wholly evil. Yet it is impossible to have such power as this country now possesses without deploying it in one way or another. Furthermore, it is impossible to create huge vacuums in the world by the destruction of great nations without having other forces (often worse ones) rush in to fill them. In and of itself, the maintenance of an adequate balance of power may not be the noblest of goals, but it is a means which statesmen have used, and used effectively, over the years in the cause of peace. And, on the record, it has proved itself a better instrument to that end than most of the 800 odd peace plans which have been proposed and tried since the Achaean League.

Maintenance of a balance of power between nations, so as to prevent any one of them from threatening or dominating the rest, was a principle familiar to the ancients both as theorists and practical statesmen. It was practiced in mediaeval and in modern Europe. It received recognition in the early formulation of international law. It was the justification for the coalitions against Louis XIV and Napoleon. National upheavals, changing the map of Europe obscured its application during part of the 19th Century, but towards the end of the Century it emerged again in a series of alliances and counter-alliances whose object was to preserve peace. The disrespect in which the phrase "balance of power" is held in this country has sometimes been ascribed to an interpretation of the Monroe Doctrine whereby the

*An address by Mr. Eberstadt at meeting jointly sponsored by the World Affairs Council of Seattle and The University of Washington, Seattle, Wash., Oct. 16, 1950.

United States exercised a special influence in the Western Hemisphere. The Latin-American countries may have a different understanding of the balance of power than we have and warmer feeling toward it.

For this device perfection has never been claimed. Nor do I claim it now. It does not guarantee that absolute assurance against war that is desired by Utopians. It recognizes the human race for what it is and takes note of the potentialities and limitations of mankind. It assumes that in the unfolding of time there will arise ambitious and unscrupulous rulers who, opportunity being offered, will embark on aggression and conquest. It was to restrain such men that a balance of power was deemed necessary. As to the relative merits of this mechanism versus a really effective world organization, I offer no argument. I do affirm, however, that since no such effective international authority existed the balance of power should not have been destroyed.

II

At any rate, my thesis tonight is that it is in the interest of this country, and of all other peace- and freedom-loving countries, to restore the balance among nations that was so improvidently destroyed. In support of this thesis, permit me to propose a simple question. Suppose that as the war drew to a close, we had offered Mr. Stalin whatever he wanted. What would he have been likely to request?

I submit that his answers would have been about as follows:

(1) Destruction of Germany, so that they might communize that state and achieve their objectives in Western Europe and in the Balkans where for years the Germans and British had blocked them.

(2) Destruction of Japan, so that they might achieve their aims in the Far East, which for years the Japanese had blocked.

(3) Demobilization of our own powerful military establishment lest we raise effective objections to the course which they intended to pursue in very practical terms which they understand and respect.

(4) Disclosure of the secret of the atom bomb in circumstances where they could build up a stockpile of bombs while we were foreclosed from doing so.

I hope you will not regard my outline of Stalin's presumable requests as evidence of a close personal intimacy between us, and that my Americanism will not be subject to sinister imputations by the admission on my part that my views as to what Stalin might have wanted are based in part on reading some of his writings.

Well, with childish faith and quite unmindful of the consequences, we granted Mr. Stalin three out of four of these requests. We destroyed Germany and thus opened up that country and its former sphere of influence to Russian infiltration in Western Europe and in the Balkans. We destroyed Japan and thus opened up that part of the world to Russia's aggressive designs. We demobilized our powerful military establishment. One request, however, we have not granted. To the lasting credit of that great and patriotic American, Bernard M. Baruch, we did not hand the Russians the atom bomb on a silver platter.

In a word, by destroying states essential to it, we destroyed the balance of power upon two continents, actions which were highly favorable to the imperialistic intentions of Russian communism. To the cool-headed and skillful manipulations of our calculating former ally, we innocently responded in exactly the way they wanted us to. Thus, we have been euchered into a position from which only clear thinking, wise judgment and prompt and forceful action can extricate us, short of a third and catastrophic war.

We were right, of course, in defeating Germany and Japan and in destroying Hitler and his Nazis and the Japanese war lords. Under vicious and unscrupulous leadership, they had embarked on ruthless conquest, threatening our own national security. Our mistake is not in defeating Germany and Japan, but in reducing them to a condition of complete impotence. These two nations, in the West and in the East, respectively, had for years constituted effective barriers to the imperialistic advances of Russia. When their restraining influences on Russian ambitions were removed, we were faced with the alternatives either of sitting idly by and accepting Russian exploitation of these areas, or of offsetting by our own economic and military resources the Russian pressure to fill the vacuum created by the destruction of Germany and Japan.

Why and how we abandoned all ideas of negotiating peace and embarked on the course of total destruction of Germany and Japan will some day prove a fascinating chapter in history that I can only touch upon here. The fateful decision seems to have been made rather casually at the 1943 Casablanca Conference where the doctrine of "unconditional surrender" was first announced. Whatever the merits of that doctrine as a military slogan, it had far-reaching consequences on the peace. To Germany we administered this dangerous prescription in full

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Underwriting of Finance Company Securities

By PAUL C. KIMBALL*
Sills, Fairman & Harris
Investment Bankers, Chicago, Ill.

Specialist in field of finance company underwriting explains procedures and problems connected with new offerings of securities. Cites cases of offerings of convertible debentures, preferred, and common stocks, and importance of common stock leverage. Describes provisions of underwriting agreements and impact of personal income taxes, and gives advice to concerns seeking underwriting.

Public underwriting of securities is my way of making a living. I find it a most fascinating job. Each underwriting poses a new problem. There is no fixed pattern for setting up an issue of securities to be sold to the public. Even when we are preparing the second or third offering for the same company, we cannot always use the same formula for defining the issue, or the price, or the costs. This is because our economy is dynamic, and because there are many phases of it that affect your customers, your costs, and your earnings, and shifts occur with startling rapidity. These influence every other business too and, of course, the market for securities.

Paul C. Kimball

Because I like my work, I am happy to have this opportunity of telling you about it. Of a great many public offerings, most of them in the industrial field, I have originated and sold to the public, in the last five years, seven offerings of securities for finance companies. Each of the companies was a small one when we did its first financing, even as most of your companies are considered small in relation to, say the top 10 companies in your industry. These public offerings covered just about the whole field of public finance. We sold to the public subordinated debentures, convertible preferred stock, preferred stock, class "A" common stock, and common stock. All of the offerings were successfully consummated. Each offering, however, was a problem in and of itself.

The handful of large established finance companies operating on a national basis has no more trouble raising funds from the public than large public utilities, or large businesses in general. Their costs would be comparable, and the yield on their securities roughly the same.

This morning, however, I propose to talk about the public sale of securities of the smaller finance companies, although I know that there are present representatives of the very large companies in your field, such as C. I. T., Commercial Credit, Associates Discount and Walter E. Heller, for your needs for additional capital funds are real and urgent, and my experience tells me that most of you are uninformed in this field—and just a little bit afraid of investment bankers as a group.

In going to the public for funds, through the sale of some type of security, you are competing for dollars against such companies as American Tel. & Tel., du Pont, General Motors, Radio Corporation, Standard Oil, U. S. Rubber, Pennsylvania Railroad, the Federal Government, 48 states and their political subdivisions, the major commercial banks, and the several thousand other issuers of securities in the listed and over-the-counter market. The public with money to invest is going to determine where and in which of these securities its money is going, on the basis of safety of principal, yield, chances for capital gain, and other related factors. Admitting this, we accept the basic fact that selling securities of any new issuer is a real selling job. To do a successful job, it is necessary for the underwriter, at the time a new issue is being prepared, to steep himself in the history of the industry and the particular company whose securities are to be sold. In our case, we pay particular attention to the capacity, ability and integrity of the management. We consider this even more important than the historical record of earnings, the potential earnings of the business, or the balance sheet.

Finance Company Securities

Quite frankly, finance company public offerings are among the more difficult ones to sell. It is much harder to build "romance," as we call it, or "sex appeal" around a company that is factoring or lending against commercial paper or inventories, than around an assembler of television sets, or a public utility, or a manufacturer of pencillin or some other "wonder drug." The buying public really knows very little about your activities and how you make your profits. What impressions they do have, I find, have come from reading the "Merchant of Venice" in the grade schools. We have found a pronounced prejudice in a great many large New York Stock Exchange member houses, and other brokerage houses, against securities, listed or unlisted, in any kind of finance company. The same kind of prejudices, we also find, in many other brokerage houses against shares of distilleries, breweries, and cigarette manufacturers. Our own experience, however, has shown that this prejudice is ill-founded and can be overcome.

We find that selling finance company securities requires a hard-hitting educational program. Many of you know the educational job that preceded the sale of the first subordinated debentures of companies in your field to the major insurance companies some seven or eight years ago—and you know too that many large insurance companies even now are still feeling their way and have not yet taken the same constructive position, with respect to the purchase of your subordinated debentures, as The Mutual Life Insurance Company of New York, whose Vice-President, Mr. Silloway, has given such an excellent talk on this very subject.

We like the industry. We like its performance record and the way its securities have acted in the general market. We believe yours is a "growth situation," and that its function in the American economy is as a source of secondary bank credit. Its task is constructive. From my own experience, I know that many of the largest businesses in their field in the United States today developed their productive facilities, their sales volume and their ability to get unrestricted bank credit now, with the assistance of companies like yours who factored for them, or extended them credit on their commercial paper, their inventories, or their chattels.

There are three general classes of securities that investment bankers sell to the public: Bonds or Debentures, Preferred Stock and Common Stock.

Bonds or debentures sold by finance companies, unlike those usually sold by an industrial firm, are generally subordinated to bank loans. There has been a growing trend for these securities to be sold privately to insurance companies, fraternals, or other large investors. I hasten to say that the investment banking fraternity would like very much to participate in negotiating these private placements. We are glad when we can, but direct negotiation between borrower and lender is becoming more and more the rule, and we do not propose to waste our energies fighting this trend. Occasionally, however, when market conditions are right, convertible subordinate debentures are sold to the investing public and, upon conversion, the debentures become part of the permanent capital of the business.

Most Usual Offerings of Finance Companies

The more usual public offerings of companies like yours are in terms of convertible preferred stocks and common stocks. However, preferred stock issues, like subordinated debentures, are sometimes placed privately. A straight preferred stock, as such, with a fixed retirement formula to make it saleable, is not recommended for finance companies, except as an expedient during a particular phase of the market. The capital obtained by this kind of a sale must eventually be replaced through a new issue. When preferred stock, however, is sold with a convertible feature, normal growth usually causes the underlying common stock to pass the preferred in market value, with resulting conversion making the capital permanent.

The sophisticated purchaser of convertible preferred stock calculates that such an investment in a preferred equity protects his capital against dissipation by management, provides a definite plan to return to him his purchase dollars at a future date through a retirement program, and insures a dividend yield commensurate with the risk. In addition, he has a call on the common stock—the ultimate recipient of all the profits generated by the pyramided financial structure, over the length of the conversion covenant. For this right, he is paying a fair premium.

May I illustrate just how this works by telling of an offering I handled in 1945. This finance company, which we will call Company "A", wanted to raise \$500,000 or more of equity money. It had some 90,000 shares of common stock outstanding, with enough in the hands of the public to make a market at about \$7.50 to \$8.00 per share. Earnings for the previous three years averaged about \$50,000 per year net after taxes, and the company was paying out the bulk of this each year in dividends — 37½¢ per share in 1944, and 50¢ per share in 1945—on its outstanding common stock.

Confident of the ability of the management, and sure in our own mind of the growth possibilities of the business, we recommended, underwrote and sold 65,000 shares of \$.50 cumulative convertible preferred stock at \$10.00 per

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*An address by Mr. Kimball before the Convention of the Commercial Finance Indus..., sponsored by the National Conference of Commercial Receivables Companies, Inc., New York City, Oct. 17, 1950.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Cope With Inflation — 32-page monthly stock digest containing data on 20 growth stocks—sent on request on your letterhead—Craigmyle, Pinney & Co., 1 Wall Street, New York 5, N. Y.

Commodity Prices the Key to Stock Market Cycle? — Comprehensive analysis with three-month trial subscription to weekly letter service sent on receipt of \$10 — Anthony Gaubis & Co., 37 Wall Street, New York 5, N. Y.

Distillers Stocks—Brief analyses of **National Distillers, Distillers Corp.-Seagrams, Schenley Industries, and Hiram Walker**—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

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Monetary Policy in the International Economy

By M. S. SZYMCZAK*

Member, Board of Governors, The Federal Reserve System

Pointing out monetary policy of every free economy should pay attention to interrelations between domestic and foreign events, Federal Reserve spokesman holds reestablishment of international convertibility of currencies is indispensable to return to a free international economy based on the market mechanism. Calls attention to recent increase in U. S. imports, thus easing dollar shortage, and to measures taken here and abroad on instruments of monetary policy to curb inflation rather than direct controls. Says Federal Reserve is prepared to take further action toward inflation control.

Free nations are closely tied together by commercial and financial relations, and the national income of each country depends to a large extent upon international developments. In order to make full use of its resources, a nation must exchange products in which it excels for products which are more efficiently produced abroad. It must attract foreign capital if its resources cannot be fully developed with its own savings. Similarly, it must send capital abroad if its savings exceed its own investment needs.

M. S. Szymczak

The monetary policy of every free economy must therefore pay serious attention to the interrelation between domestic and foreign events. There is, however, a fundamental difference between the domestic and the international aspects of monetary policy. Within its own borders, every nation has sovereign control of its system of money and credit, and the monetary authorities therefore have a unique position in influencing domestic economic developments. But sovereign monetary control does not extend beyond a nation's own borders, and the monetary authorities can affect happenings abroad only by indirection.

If, for example, the monetary authorities of one country succeed in curtailing the expansion of domestic credit in order to avoid inflationary developments, this step will directly affect domestic investment and thereby the size of the national income. The rest of the world, however, will feel only indirect repercussions; namely, insofar as the change in national income of the country affected will influence its imports and exports of commodities and of capital.

International Effects of Monetary Policy

Monetary policy influences the economy primarily through the supply of credit. This influence can be brought to bear on the entire economy by changes in the rate of interest and in the liquidity position of credit institutions and the general public; it can be directed toward individual segments of the economy by selective credit controls.

Changes in interest rates and liquidity—In times of international security, the currencies of all important nations can be freely exchanged. In such times, changes in interest rates and liquidity are very important in determining the international flow of short-term funds. In the present troubled times it is easy to forget that not so long ago the difference between short-term interest rates in New York, London, Paris, and Amsterdam was a decisive factor in the distribution of funds among those centers of international finance; it was therefore also an important factor in the liquidity of the banking systems of the United States, the United Kingdom, France, and the Netherlands.

Under present conditions it is unlikely that investors would switch their funds overnight from one country to another in order to get a slightly higher rate of return on their capital. In most countries capital transfers are subject to the approval of some government agency and, of even greater importance to their direction, are dictated more by political fears and hopes than by small differences in interest rates. Almost everywhere, people are subject to currency devaluation, capital levies, or exchange restrictions, not to speak of the danger of war or revolution. Hence, investors try to find a safe haven for their funds even if the interest rate there is substantially below rates revailing elsewhere.

In times of severe international disturbances, therefore, the influence of changes in interest rates and liquidity on the international flow of investment funds is limited. In such times, however, both debtor and creditor countries pay particular attention to balance-of-payment problems, and the influence of monetary policy upon the balance of international payments often overshadows its purely domestic effects.

The dollar gap—Most countries other than the United States are anxiously watching their current balance of dollar payments. The main reasons for this anxiety are twofold: most countries have smaller reserves than would be necessary in emergencies; they also have an unsatisfied demand for American goods, while the American demand for their own products is limited. This situation has become known as the dollar gap; namely, the persistent tendency of many countries to experience a deficit in their dollar balance of payments.

Monetary policies can do much to close that gap. A chronic deficit in a country's balance of payments suggests the presence of inflationary tendencies: the public has more money to spend than is needed to pay the existing prices for the goods and services currently produced. By eliminating excess purchasing power, the demand for foreign goods and services can be reduced until the international balance is in equilibrium. But there is a serious obstacle to such a policy: the structure of a country's economy may be such that before the demand for *foreign* goods has been sufficiently reduced, the demand for *domestic* goods will fall so sharply as to bring about a severe recession. For instance, the reduction of purchasing power in a highly industrialized country that depends upon imported foodstuffs may lead to serious unemployment in domestic industry long before there is any appreciable reduction in food imports. In such a case, a more fundamental change in the country's domestic economic structure or in its international economic relations may be necessary.

Early postwar efforts to reduce the dollar gap—Immediately after the war, such changes were needed in virtually all countries that had suffered severe damage or enemy occupation. In those years, more reliance was placed on direct international aid, at first through UNRRA and then mainly through ECA, than on the indirect methods of monetary policy. By 1949, however, the importance of monetary factors had again been universally recognized. Inflation had been halted in most of the important nations, but different degrees of inflationary distortions persisted in the various countries, especially in those where severe domestic price and wage controls had added to the confusion. It was therefore necessary to reduce all these inconsistent price and wage levels, so to speak, to a new common denominator. It would obviously have been impossible to make further drastic changes in internal prices and wages so soon after stabilization and so it was necessary to change the international relations of the various price levels. In other words, it became imperative to alter radically many international exchange rates, the most important of which was the rate between the dollar and the pound sterling.

The effects of the exchange adjustments of 1949—You know that this was done in September, 1949. From that time on, monetary policy has been able to resume its stabilizing role in international relations. At that time, many skeptical observers asserted that prices had lost their force to determine the flow of international trade. They were wrong: the price system started to work as well as it ever had as soon as it again got a chance to do so. Producers in Europe paid more attention to their traditional export markets after the artificial creation of new domestic purchasing power had been discontinued and the worst distortions in international price relations had been eliminated. Producers in the dollar area found in turn that they could not maintain their inflated export sales since the industries in the so-called soft-currency areas were able to undersell them.

In consequence, two events took place. Our export surplus dropped from $5.4 billion in 1949 to an annual rate of $1.9 billion in the first eight months of 1950—a reduction by almost two-thirds. The resulting narrowing of the "dollar gap" made it possible for many countries to relax their direct controls, and this relaxation in turn increased the significance of monetary policy.

The example of Germany—The countries that were most energetic in applying monetary measures and in repudiating wartime direct controls were the most successful in establishing domestic and international stability. For instance, such a policy was responsible for the almost miraculous progress achieved in Western Germany.

Germany suffered more than any other major industrial nation from the effects of its wartime inflation, suppressed by price and wage controls of unsurpassed severity. In 1948 the German Government, against the anguished protests of the adherents of direct controls, eliminated virtually all price controls and rationing and, at the same time, the German central banking system used its power firmly to avoid a return to the over-expansion of money and credit. Within little more than two years, Germany saw its industrial production rise from less than 50 to 114% of prewar and its exports increase threefold. Between 1949 and the first eight months of 1950, its import surplus dropped from $1.1 billion to an annual rate of $400 million.

These developments would permit us to view the future of international *economic* relations in a very hopeful light if we could assume that further deterioration of *political* relations might be avoided.

The problem of convertibility of currencies—In the international field, postwar monetary policy aims primarily at making the main currencies of the world again freely convertible into gold and dollars. As long as the international economic community cannot make use of exchangeable currencies, international trade is as seriously hampered as our domestic trade would be if we lost our common dollar standard. Prices obviously cannot fulfill their proper economic function in the international economy if it is impossible to tell accurately what a price expressed in the seller's currency means in terms of the purchaser's currency. For instance, one pound sterling cannot at present be freely converted into $2.80 although $2.80 can be freely converted into one pound sterling. As long as this situation lasts, a commodity priced at one pound sterling will more readily find a buyer than one priced at $2.80, even though at the official rate of exchange the two amounts are the same. The commodity priced at $2.80 can be purchased by people who have dollars, but not by those who have sterling, while the commodity priced at one pound sterling can be bought by holders of either dollars or sterling. Under these conditions the currency asked in payment for a commodity is often more important than its price.

For this reason, the reestablishment of international convertibility of currencies is indispensable to the reestablishment of a free international economy based on the principle of the market mechanism. However, convertibility can be achieved only when the non-dollar countries can reasonably expect their exports to earn about as many dollars as

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*An address by Mr. Szymczak before Third Annual University of Florida-Southeastern Business Conference, University of Florida, Gainesville, Fla., Oct. 20, 1950.

What's Ahead in Business?

By C. F. HUGHES*
Business News Editor, The New York "Times"

Prominent business editor sees lag in business next year occasioned by higher prices and sharper tax bite on income but says rearmament will probably take up some of the slack before the setback becomes serious. Remarks that rearmament tap, however, can be turned on faster which poses still another question only time can answer.

Business forecasting even at its best must still be called a guessing game. About the only surefire forecast in the light of past experience is that what goes up will come down, and that bust will follow boom, and vice versa.

C. F. Hughes

You remember, no doubt, the taut reply of a Maine farmer to the question of a summer visitor who asked: "Do you think it will ever stop raining?" Cogitating a bit and moving his quid, the Downeaster grunted: "It always has."

There is a big difference, of course, in who does the business guessing. Some of it is just hunch stuff. Some is merely theoretical. We have been privileged to hear informed and practical guesses, backed up with facts and figures and especially with top business judgment, as represented by leaders in their respective fields.

In the second portion of my brief talk I will switch my role from editor to reporter and summarize the findings of this panel. Right now I will strive to place my own hazy ideas of the outlook before you. They are hazy ideas because we must consider what a "guns and butter" economy means. It is all-out for guns, but in a limited way. It is not all-out war. That's what makes the answers so hard to find.

The simplest way to do our guessing, I suppose, is to try and figure: (1) what business might do without benefit of the rearmament program, and (2) how rearmament should affect business developments.

At the turn of the year, business forecasters as a rule were fairly certain of a good first half and somewhat dubious of the second six months. The reasons were on the obvious side. Building and automobile and appliance sales would not keep booming forever, and capital expenditures (what industry buys in new plant and equipment) were already showing further declines from the 1948 peak.

However, there had been a good recovery from the so-called inventory scare of early 1949. Worried producers, seeing stocks grow, had cut back production sharply in that scare. The Federal Reserve index of industrial production slumped 34 points from November, 1948 to July, 1949. Overall output, therefore, sagged by 17% in that period.

Then it was discovered that, while manufacturers and businessmen generally were scared, the public was not disturbed much and just went on buying. This verified the findings of the Survey of Consumer Finances sponsored by the Federal Reserve Board and conducted by the Survey Research Center of the University of Michigan. The survey, released early in the year, flashed the green light for business. Retail sales held to an even keel while industry was slipping. Residential building pushed ahead.

After the inventory scare in the spring of 1949, production started to climb in the summer and now is above all peacetime levels and headed towards the wartime peaks. The September index reached 213, or the highest since June, 1945.

But quite a piece of this recent upturn can be charged to another scare. Last year for a while inventories looked too big. When war started in Korea, they looked too small. Scare buying surged against retail counters and in still heavier waves against industrial suppliers.

However, it is decidedly worth bearing in mind that the jump in business and prices came before Korea. Thus, wholesale prices in the BLS index climbed three points in May from 152.9 to 155.9 after holding quite steady for a year. Building starts in the same month of May passed the 144,000 mark.

Before Korea, retailers had abandoned their buyers' strike strategy of the previous three years and jumped in with fast orders and quick confirmations when the fall season opened in wholesale markets. They evidently were convinced that early prices would be the lowest prices, and that goods in hand were worth lots more than those in the bush—because you can't sell what you haven't got.

Inflationary forces, steamed up by the tremendous money and credit supply, were in the saddle before Korea. Business loans made a postwar peak after the decline of 1949. Consumer credit reached new heights. Productivity was gaining, but not enough to match the increase in money. Speculation was fairly restrained in security markets, but in June, just before Korea, the year-long rise on the exchange topped the 1946 peak.

The look of things before Korea and rearmament, therefore, was somewhat on the order of a final inflationary splurge which might climax, perhaps, early in 1951, unless prices were readjusted and further wage increases curbed. This is just a theory about business possibilities ex-rearmament. Korea, of course, intensified the influence of inflationary factors.

The scare buying of consumers before credit controls were clamped down, sent sales soaring. They have since subsided and there are several theories about trade prospects for the rest of the year. One holds that some business was "borrowed" last summer from fall volume. Another contends that when the full impact of wholesale price increases is reflected in retail prices, then there will be rebellion in consumer ranks.

Trade authorities maintain, however, that the final quarter of the year will bring a gain of 7% in retail dollar volume, due chiefly to higher prices. The estimate is for an all-time record in retail sales this year of $137 billion.

There is just a possibility, nevertheless, that higher prices, higher taxes and credit curbs may combine to dampen the holiday trade that is coming up. Wage and salary increases in some lines will offset these additional charges against family budgets. The usual tendency, though, is to spend more than the extra amount in the paycheck. Ten cents an hour means $4 a week. The tax rise takes $1.80 and higher prices a similar sum. That leaves a net gain of 40 cents for the average industrial worker who has been boosted 10 cents an hour.

The full impact of higher prices and taxes will not be felt until next year. New and higher costs will be reflected, then, in retail prices. Pay-as-you-go taxes for defense are expected to put a still sharper bite on incomes.

In such circumstances, it is difficult for me to see how even the pouring of billions into rearmament will offset the shock to purchasing power, particularly as this is not all-out war but something on a 10-to-15% scale.

Curbs on consumer and housing credit are already effective. They require larger down payments and shorter terms of payment. The housing Regulation X is designed to cut down home building by one-third, or some 400,000 units. That would represent a sum of more than $5 billion, or one-third of the extra appropriation for our own defense. The consumer credit Regulation W will chop off additional billions.

Meanwhile it is not generally realized that Federal expenditures so far in this fiscal 1951 period have run some $2 billion under the same period last year and that there is even a small surplus. Rearmament expenditures will change this, but they are slow in showing up. The $30 billion rate for rearmament will not be reached, it is estimated, until June of next year.

Over the intervening period, business may lose several of its principal boom-time props, chief of which is housing. Consequently, some steam may be let out of inflation, and it remains to be seen whether a slowly applied $30 billion for defense will offset the chops we are making in civilian supply. After all, $30 billion represents only 12% of our gross national product.

My conclusion is, therefore, that inflation will be curbed in coming months, that there will be a lag in business next year and that rearmament will probably take up some of the slack before the setback becomes serious. The question is whether 12% will do the job. The tap, however, is one that can be turned to run faster. Where this would leave us is another question which only time can answer.

Now let me move over to the role of reporter and try to give you the highlights of this panel discussion as I see them. This is the way I would summarize the findings:

(1) Lack of definite information about military requirements makes a sound appraisal of the business outlook rather difficult.

(2) New curbs on housing credits have a sound objective since they reverse the artificial inflation of recent years which can be placed on the doorstep of the government.

(3) Consumer credit has not run out of bounds. Its ratio to disposable income is 6.5 as against 6.8 in 1941.

(4) Major appliance business next year may run 25 to 30% below the 1950 volume, and that would still be good business.

(5) The textile industry, now in stronger hands, modernized and streamlined with contacts to the consumer, looks ahead with confidence to the new year.

(6) Pricing and fiscal matters pose grave questions. Moderation and expanded production are the most effective answers.

(7) Retail trade should be good for the rest of the year, ease in the first quarter of 1951 and pick up in the second quarter.

The forecasts in the main, therefore, are on the optimistic side and look to continued high employment and high wages as partial offsets, at least, to high prices and higher taxes.

*A statement by Mr. Hughes, at a panel discussion on "What's Ahead for Business?" Boston Conference on Distribution, Boston, Mass., Oct. 17, 1950.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The resurgence of inflationary pressures throughout the economy during the past ten months and particularly since the Korean crisis has focused attention of fire underwriters on the rising trend of losses.

The business recovery from July, 1949 was based to a large extent upon activity in the fields of residential building and automobile production. This in turn was financed in large part by the use of government sponsored credit arrangements or other easy credit terms.

The capacity of these industries to absorb materials is enormous and as the activity in both fields reached record proportions, stimulating effects radiated throughout the entire economy. Employment increased, industrial activity gained and inventories were rebuilt in line with the increased rate of activity in most industries. Also there were several important wage contracts which were settled at advanced rates or improved social security benefits. These conditions created upward pressures on the price structure.

The pressures were intensified after June 25 when the familiar cycle of increasing wages and increasing prices occurred.

As is usually the case when prices are rising and there is a high rate of industrial activity, there has been a rising trend of fire losses, as compared with those of a year ago.

A large part of the very favorable underwriting results of 1949 can be attributed to the fact that the loss experience for the period showed considerable improvement over that of the previous year. When industrial activity increased, however, and prices began to rise, there was an increase in the fire losses.

This was one of the main contributing factors to the underwriting results experienced in the first half of this year. For the first six months underwriting operations were less favorable than in the record first half of 1949.

Although fire losses are not the only determinant of the loss experience, fire lines do represent a substantial portion of the business written and losses experienced in this division of the business to some extent reflect the factors at work in the insurance industry generally.

For this reason we present below the estimated fire losses in the United States for the first nine months of the current year and the full years 1949 and 1948 as prepared by the National Board of Fire Underwriters.

	1950	1949	1948
January	$58,823,000	$57,926,000	$63,010,000
February	58,340,000	62,424,000	71,521,000
March	72,468,000	67,218,000	74,236,000
April	61,605,000	55,290,000	33,751,000
May	58,765,000	54,162,000	59,256,000
June	57,116,000	51,787,000	54,706,000
July	52,980,000	49,592,000	50,955,000
August	49,878,000	50,150,000	49,543,000
September	45,922,000	49,673,000	49,945,000
Nine Months Total	$515,897,000	$498,227,000	$536,923,000
October		49,914,000	51,845,000
November		58,116,000	52,949,000
December		67,279,000	69,39[illegible],000
Twelve Months Total		$667,536,000	$711,114,000

As can be seen from the above figures fire losses from the beginning of the year have, with the exception of February and September, been higher in every month as compared with the corresponding periods of 1949. For the nine months ended September the loss was $515,897,000 or approximately 3.5% greater than the $498,227,000 estimated for the same months of the year previous. The totals were still below the record losses of 1948, however.

With industrial activity at a very high level, prices above those of last year and inventories higher than for some time, we would expect the trend of fire losses to continue to reflect these conditions.

Recent developments cannot be viewed as entirely adverse to insurance company operations, however. The reappearance of strong inflationary forces has brought the problem of adequate rates to the attention of regulatory authorities. And, whereas formerly the pressure was for lower rates, many now realize that it might be unwise to take such action in the face of recent changes in the price structure.

Also there is the fact that with prices and values rising, additional insurance will be required to provide sufficient coverage. This could mean some gain in underwriting volume as premiums are adjusted to the higher valuations.

The experience of insurance companies for the remainder of this year should be satisfactory despite the recent increases in costs. Further upward movements of the general price structure, however, could impair underwriting results for next year.

Partial War and Economic Expansion

By MARTIN R. GAINSBRUGH*
Chief Economist, National Industrial Conference Board

Mr. Gainsbrugh's analysis of economic situation arising out of current rearmament program considers both the short range and the long term prospects. Stresses effect of war expenditures on price level and consequential higher governmental costs. Estimates total government expenditures, because of lower value of dollar, may increase to as much as $85 billion annually and may not be abated or offset by productivity expansion. Holds methods of combating inflation of last war will not hold under present conditions, and warns inflation comes from higher costs as well as from increased money supply. Sees need of studying impact of higher taxes on economy.

The more favorable the sequence of military achievement in Korea, the greater the stress upon the longer-range, expansive character of our armament program by political and military leaders alike. In a matter of days the "peace scares" which shook both commodity and stock exchanges have come and gone. The staffing of the burgeoning civilian control agencies goes on apace.

Martin R. Gainsbrugh

The flow of men into military service is accelerated, and further broadening of draft ages is proposed. Allocations of steel and other vital materials to meet future defense requirements ran far beyond the levies of the military during the third quarter just ended. We are told we stand as yet only upon the threshold of the economic expansion our partial war effort will require.

Typical of the expansive phase of official planning is the recent blueprint unveiled for the steel industry by the Department of the Interior. This called for an increase in capacity of 25-30 million tons by the end of 1952. That industry had previously proposed to enlarge its capacity by about 10 million tons over the next year. This would exceed the increase in capacity throughout all of World War II. It would almost match the drain upon capacity for military purposes. But the new official estimate now is that civilian demand alone would rise to 120 million tons, while another 5-10 million tons would be needed for the military by the end of 1952.

No official economic model for the entire national economy under a state of partial war or semi-peace has thus far been released. But from continuing study of recent official speeches pieced together with testimony of military and civilian administrators before Congressional committees, the broad outlines of the unfolding partial-war economy can be traced.

Short-Range Prospect

The initial target for defense expenditures was set by President Truman at an annual rate of $30 billion by mid-1951. Thus far military expenditures since K-Day have been no greater than the amounts spent in July-September, 1949. Preliminary estimates for the quarter just ended reveal that government purchases of goods from private industry coupled with its military and civilian payroll totaled $43 billion (annual rate). The corresponding figure for the third quarter of 1949 was $43.2 billion! Indeed the size of our armed forces today is still no greater, if not less, than it was a year ago.

The slow rate of acceleration thus far in government outlays has led some to believe that the early target of $30 billion was pitched too high. This, coupled with the prospect of decreasing resistance or cessation of hostilities in Korea, has brought some analysts to the conclusion that an annual rate of $30 billion of defense spending might well prove to be the maximum rather than the minimum.

The converse would appear to be more in accord with official planning. Expenditures have been low primarily because of the lead-time required before mass volume could be forthcoming in the aviation, tank, electronics and other key sectors of supply. This period of building up an inventory of "bits and pieces," of regularizing the flow of assembled components and of transforming nominal or "paper" plant capacity into effective arsenals of armament is more a matter of months than of weeks. End-products would begin emerging in a sharply accelerated rate only six to nine months after the initial expansion of war contracts was begun. By mid-summer armament output should have risen according to current unofficial estimates, to about $35 billion, with President Truman's $30 billion viewed increasingly as a minimum.

Contributing significantly to this upward revision is the emerging recognition of the sharply diminished command over goods and services of the armament dollars spent by government. For months on end conservative spokesmen had warned that the acceptance of large-scale deficit spending as a national way of life and official endorsement of an inflated price level as "normal" would sap the nation's fiscal strength in the event of another international crisis. Since 1939 the purchasing power of the manufacturers' dollar spent for raw materials has been cut by nearly 60%. The dollar spent for factory labor today commands only 43% as much labor time as it did prewar.[1] Housewives and other consumers have grown increasingly aware that the purchasing power of their dollars has also been cut almost in half over this period.

Higher labor costs and higher material costs have likewise eroded the government's armament dollar. Preliminary estimates reveal that the purchasing power of the dollars of the various defense agencies had declined by 50%-60% from what they commanded in the material markets of World War II. This means that it costs at least twice as much today to purchase the identical instrument of warfare as it did five short years ago—and in some vital areas costs are well above this average for all forms of material. As a result initial estimates of defense spending have been drastically revised upwards to reflect the prevailing cost structure as it emerges, even after allowance for curtailed profits after renegotiation, abnormal costs of test and pilot models, etc.

Longer-Range Defense Program

Turning next to the longer-range dimensions of government spending for military purposes beyond the immediate Korean emergency, we find again no official model or indication of economic dimensions. The pattern of Washington thinking, however, is shaped about a continuing state of international tension, of either semi-war or semi-peace. Typical of the general statement on the longer-range program is the following: "The character of the international threat makes the period of time for high defense expenditures indefinite but probably a long one."

The broad outlines of the longer-range program can be sketched again from unofficial economic models which the various technicians in government have built for their own guidance. These call for about $25 billion-$30 billion more for armaments by the close of calendar year 1951 than was spent in the quarter just ended. This would mean about $40 billion-$45 billion for direct defense-military purposes. That level would in turn form the new plateau of defense expenditures until international tensions eased —that period remaining uncertain, but spanning at least the rest of this decade in some current models. Meanwhile there would be an accompanying increase in total national output of goods and services. As a result the longer-range program is frequently designated as 10%-15% set-aside of gross national product, with the emphasis of late upon the higher percentage because of the decreased purchasing power of the government dollar. (Gross national product in the third quarter had already advanced to $282 billion, annual rate, as compared with $270 billion at mid-year.)

This longer-range program entailing an annual commitment of $40 billion or more for defense purposes had its initial origin in the dark days when the forces of the United Nations were steadily yielding ground in Korea. They reflected in part an open-end commitment, with the contingency of similar acts of aggression in other soft spots throughout the world, the possible entry of China into active warfare, the uncertainty of supporting action by other sympathetic powers in the United Nations, etc. The pace of mobilization was determined primarily by the military and state departments, with the impact of the programs such groups advocated upon the strength of our domestic economy necessarily assuming a secondary position. Increasingly in the period ahead, our longer-range commitments will become subject to more intensive examination, with particular emphasis upon the impact of the cumulative drain upon our national resources of a second unbroken decade of unparalleled government spending. Already the emerging emphasis in some quarters upon defense spending as an instrument of economic expansion suggests that public policy here will be vigorously contested. Certainly there is little awareness among the general public as yet that our "unofficial" program would expose us to a total cost of partial war actually greater than the combined outlay for World War II. And yet a decade of deficit spending at the so-called ascending plateau of $40 billion annually would mean a bill for defense some $100 billion above the amount spent during 1942-1945.

Two additional aspects of the longer-range program can be developed to place the proposed expenditures in historic perspective. The first point of stress is that the program proposed is additive. Despite the soothing slogan of the "it's only 10%" school, the world's biggest business would grow far bigger under partial war. Assuming no expansion over the longer term in the expenditures of state and local governments, total government spending would rise to at least $80 to $85 billion annually. In 1949, the comparable total was about $60 billion, the Federal Government alone accounting for $41.5 billion. Curtailment of non-military expenditures may be possible, but it is pertinent to note that Federal expenditures for non-military purposes are currently running nearly $5 billion higher than in 1947-1948 and that an increase of $1.7 billion for such purposes is indicated in the budget for the current fiscal year. Population pressures alone would undoubtedly compel state and local governments to increase their outlays over the decade ahead, so that the $80 billion-$85 billion figure may err on the conservative side.

The growth in government's influence upon the market place through its payroll, its purchases from private business and its welfare payments is perhaps the most significant economic change of the past quarter century. Two decades ago Federal spending for goods and services had barely reached $2.5 billion; including state and local units, the cost of government was little more than $10 billion. A decade later our social overhead was approaching $20 billion, with Federal expenditures almost equal to state and local outlays. The present decade begins with the total cost of government in excess of $60 billion. The Federal Government is already spending far more each year than the nation's annual gross savings, including not only all personal savings, but also all business profits, all depreciation charges and all other capital charges combined.

Under the longer-range defense program, the total of government spending would rise, as estimated above, to $80-$85 billion, closely approaching the zenith of World War II outlays. At that time government was the dominant factor in determining the rate of production, investment and consumption of an economy at war. At that time too, only about half of all government outlays was financed through taxes. With the increased emphasis upon pay-as-you-go this time, government would under the proposed program spend almost as much as in the last war and would collect far more in taxes than it did when we were at war. Our tax burden is already beyond the danger point of 25% of national

Continued on page 42

*An address by Mr. Gainsbrugh before the Sixth Annual Convention of the Commercial Finance Industry, sponsored by the National Conference of Commercial Receivables Companies, Inc., New York City, Oct. 17, 1950.

1 See The Conference Board's "Road Maps of Industry," No. 766, Sept. 1, 1950.

Mutual Funds

By ROBERT R. RICH

Trust Expert Joins Wellington Staff

Edmund A. Mennis, an investment trusts expert, has joined the staff of Wellington Fund, Joseph E. Welch, Executive Vice-President announced to "The Chronicle" today.

Mr. Mennis, who is most widely known for his work with the American Institute of Economic Research, was senior author and editor of two Institute books, "Investment Trusts and Funds From The Investor's Point of View" and "How To Invest Wisely."

At the Institute, Mr. Mennis had complete charge of the administration of the Investment Division, supervising research projects in the Investment Division, and had primary responsibility for direction of individual portfolios continuously supervised by the Institute.

Mr. Mennis is a fellow and economics instructor in the Department of Economics of the College of the City of New York.

In 1943, he graduated with distinction from the Army Air Forces Statistical Officers Course at Harvard University Business School.

After his war service, he was associated with Eastman Dillon of New York.

Distributors Announces Monthly Check Plan

The first "check-a-month plan" through which an investor can distribute his income over 12 months within one mutual fund, was announced by Group Securities, Inc.

Any Group shareholder can sign an order which will instruct Group to send him his check monthly instead of quarterly. The principal advantage of the plan, it is claimed by Group, is that it is not necessary to pick mutual funds to get this advantage which many investors prefer. Instead, he can use any of the five Group Funds of 17 Industry Classes and achieve the desired result.

In addition, the customer gets the following advantages:

The customer can substitute one Group Fund for another whenever the dealer and he think it advisable—the dividend date makes no difference.

The dealer doesn't have to confine himself to three funds to get a check-a-month for his customer.

Dividends within each three-month period are "evened out."

Dates of income received are more regularly spaced.

Wellington Fund Reports $35 Million Increase

A record of $35,781,201 increase in total net assets in the nine months ended Sept. 30, 1950, was reported today by Wellington Fund. The increase, largest for any similar period in the Fund's history, boosted net assets to a new high of $141,222,903 on Sept. 30, last, from $105,441,702 on Dec. 31, 1949, according to the report for the quarter ended Sept. 30, 1950.

Net asset value per share also increased to $18.70 at the close of the September quarter from $17.91 on Jan. 1, 1950.

Total profits realized by the Fund from the sale of securities this year to Sept. 30, last, were listed at $2,720,679.

The report gave this summary of investment activities:

"After the outbreak of the Korean War your management adjusted investments to a semi-war economy by increasing common stocks in the steel, railroad and railroad equipment industries. The Fund already held airline, machinery, metal and motion picture stocks, which might be expected to benefit by the changed conditions. While some of these stock groups were previously reduced earlier in the year, some modification of our program was required because changed conditions call for a new policy.

"As rearmament should benefit Canadian industries and Canadian dollar exchange, your Fund," the report continued, "made a substantial investment in Internal Canadian Dollar bonds. On Sept. 30 the investment in Canadian securities totaled $3,773,100. This investment proved timely with the rise of the Canadian dollar at the beginning of October, when the Canadian Government freed its currency from a fixed rate of exchange.

"Last summer, when some stocks were depressed by fear of curtailment of materials and the threat of excess profits taxes, your Fund increased its investment in the building, drug, office equipment and utility common stocks. An increase was also made in the automobile accessory and oil stocks. When the metal and mining stocks advanced to new highs, they were reduced. Reductions were also made in the bank, chemical, electrical equipment and food stocks."

The report stated that currently the management believes it is a sound policy to maintain a balanced program in bonds, preferred and common stocks with the commons adjusted to a semi-war economy rather than to overweight the Fund's investments in so-called war stocks of lower quality.

Putnam Fund Assets At New High

Total net assets of The George Putnam Fund increased to a new high of $41,885,000 as of Sept. 30 compared with $37,995,900 on June 30, according to the Trustees' Report being mailed today to the 15,250 shareholders. Net asset value per share increased during the quarter from $15.60 to $16.91.

As of Sept. 30, this 13-year-old "balanced fund" had 62% of its assets invested in common stocks, 19% in high-yielding bonds and preferred stocks, and 19% in high quality bonds and cash.

The Putnam Fund's largest common stock investment as of Sept. 30 was in the oils with 7.4% of the total Fund, rails 6.9%, public utilities 6.7%, and chemicals 6.0%.

Aviation Group Stresses Leverage

The record earnings reported recently by one of America's major airlines adds impetus to Aviation Group Shares stress on the inherent leverage of the fund. The Fund reports that, "As business volume rises more and more above airlines' break-even points, earnings on the common stocks of these airlines should benefit sharply due to the substantial leverage they contain. This leverage results from a material part of their operating expense being comparatively inflexible and is magnified by the fact that their capital funds consist approximately of 75% 'fixed income' senior securities and only 25% common stocks. Thus, after income covers operating expense and the return required on the 'fixed income' bearing securities, all income over and above accrues to their common stock holders."

Aviation Group regards the most significant characteristic of the airline industry as its pronounced growth trend. Airline passenger miles are forecast as follows by the New York Port Authority:

	Airline Passenger Miles (in billions)
1939	1
1944	2.2
1945	3.3
1946	5.9
1949	6.6
*1955	11.1
*1960	14.3
*1980	22.4

*Estimate by New York Port Authority

Diversified Analyzes Stockholder List

A recent analysis of Diversified Investment Fund's stockholder list reveals that over one million dollars of the 19 million dollar Fund are now held by corporations, institutions, universities, colleges, estates and the like.

Ecclesiastical organizations hold $165,000; corporations and partnerships, $130,000; benevolent and charitable organizations, $45,000; churches, $40,000; homes and orphanages, $32,000.

According to the survey, more than half the shareholders of the Fund are women, with men 21% of the list, and men and women as joint tenants 23% of the stockholders.

Wisconsin Reports

Net assets of Wisconsin Investment Company totaled $2,739,985 at Sept. 30, an increase of more than $860,000 or 45¾% over $1,879,838 twelve months earlier, the quarterly report to stockholders discloses. This gain does not take into acount $132,124 of cash distributions to stockholders during the period, Harold W. Story, President, pointed out. Holdings of Canadian securities were gradually increased in the third quarter, accounting for about 12% of net assets at Sept. 30. This move was made in view of the "improvement in the Dominion of Canada's economic and financial position and in anticipation of a change in Canada's monetary policy," stockholders were told.

Net asset value per share amounted to $3.83 at Sept. 30.

Life Fund Reports

Massachusetts Life Fund reports an increase in total net assets to $12,685,431 on Sept. 30, 1950, compared with $11,620,195 a year earlier. Net asset value per unit was $107.56 compared with $103.89 on Sept. 30, 1949. During the 12-month period, the number of units outstanding increased from 111,754.12 to 117,831.59.

The Fund is operated as part of a novel type of investment program combining the principles of a trust fund and a mutual investment trust. The plan provides separate trusts for each individual investor, with the Massachusetts Hospital Life Insurance Company as trustee. The Fund is the investment medium for such trusts.

As of Sept. 30, 1950, the portion of the Fund's assets represented by equities was 46.27%, and by protective-type securities 53.73%. Of the protective portion, 1.11% was in cash and receiveables, 21.48% was in U. S. Government obligations and 31.14% was in other bonds, loans and preferred stocks.

In the equity portion, public utility equities were 16.17% of the total Fund; industrials were 21.14%; bank, finance and insurance stocks 6.89% and railroads 2.07%. Among the industrials, the largest holdings were in oils, chemicals and retail stores which compares with building, oils and chemicals at the close of the preceding quarter.

National Investors Reports

The net assets of National Investors Corporation increased to $20,847,366 on Sept. 30, 1950, from $19,069,105 on Dec. 31, 1949, according to the quarterly report of the Company released today by Francis F. Randolph, Chairman of the Board. The asset value of the Company's Capital Stock on Sept. 30, 1950, was $10.38 per share, which compares with $9.46 on Dec. 31, 1949, and $8.59 on Sept. 30, 1949.

Broad Street Reports

The net assets of Broad Street Investing Corporation increased to $15,124,059 on Sept. 30, 1950, from $12,274,764 on Dec. 31, 1949. The liquidating value of the Company's Capital Stock on Sept. 30, 1950, was $18.47 per share as against $16.63 on Dec. 31, 1949, and $15.36 on Sept. 30, 1949. During the first nine months of 1950, there was a net increase in the Company's outstanding Capital Stock of 80,549 shares.

Keystone Files 2,525,000 Shares

Keystone Custodian Funds, Inc., of Boston, Mass., filed on Oct. 24 with The Securities and Exchange Commission an offering of the following certificates of participation: 500,000 shares of $1 par value, Series B-3; 1,000,000 shares of $1 par value, Series B-4; 500,000 shares of $1 par value, Series K-1; 25,000 shares of $1 par value, Series S-1, and 500,000 shares of $1 par value, Series S-4.

Tennessee Securities Formed in Jackson

JACKSON, Tenn. — Tennessee Securities Co. has been formed with offices at 105 South Market Street. Partners are R. Alexander, Ray B. Burton, and C. H. Little, Jr.

H. L. Harris Opens Office in Swarthmore, Pa.

SWARTHMORE, Pa.—Henry L. Harris is engaging in a securities business from offices at 112 South Princeton Avenue. Mr. Harris was formerly a partner of Jenks, Kirkland & Co., Philadelphia.

Periodic Purchase Plans Of Mutual Funds

By WILLIAM I. JOHNSTON*
Assistant Chief, Division of Securities, State of Ohio

While asserting periodic payment plans have much constructive to commend them, Mr. Johnston nevertheless holds administrators must weigh questions of their intent and possible effects in terms of the investor. Concludes they can be set up to avoid penalties which small purchaser cannot anticipate, to work to benefit of the industry and avoid more rigid regulation.

It is a particular privilege to me to be with this group of Securities Administrators and Representatives of the great Investment Industry. I shall speak briefly of a "new" aspect of distribution of Mutual Fund Shares, the currently offered periodic purchase plans.


William I. Johnston

The term "new" here, of course, must be used in a special sense, for the idea of distributing Fund shares on a regular purchase basis has been employed often in the securities industry. I refer now to the specific questions suggested by the current plans to administrators, and thus, ultimately, to the investing public.

The common denominator in earlier plans as well as current ones, is the investor of small means; and all consideration of Mutual Fund distribution must relate to this inflexible factor. Many earlier plans offered him a true installment contract. Definite dates of maturity meant to the investor a guaranteed cash face value, with specific dividend returns. The chief difficulty to the investor was that he was penalized severely for any lapse in payments. If he were forced to discontinue payments before maturity of the contract, stated cash-in values left him automatically with substantially less money than he had invested.

Furthermore, these plans were sold in many cases to persons whose ability to complete the contract was in question at the outset. When these conditions obtained, the question eventually was seriously raised whether the very solvency of some of the companies under the plans might depend upon a high lapse rate.

The New Plans

These difficulties are not, I believe, inherent in the periodic purchase plans now being offered. On the face of it, it would appear that the new plans are not much more than a slightly different way of offering the same investment trust shares to the same group of investors. But a look at the current plans will suggest questions of their intent and possible effects which administrators must consider in terms of the investor.

With minor deviations, investors are being offered two types of periodic purchase plans. The simpler of the two involves the investor's merely stating his intention of investing monthly a specific number of dollars. Here each payment actually is an individual sale—a complete contract upon payment and registration of the shares. There are no penalties for lapses, the regular load being taken out of each payment.

The second general type of plan is closer to the earlier contract type. Up to 50% of the first year's payments may be withheld as selling expense, and a definite time period, generally 8 or 10 years, is set up for maturity of the agreement. Thus a severe penalty for discontinuing the plan in its first few years is set up immediately. After the first year, perhaps 1% of all other payments will be withheld.

At Whom Are They Aimed?

I feel that it is quite pertinent at this point to suggest this question: At whom are these plans aimed? That is, the likelihood of the investor's continuing this plan may well have a direct bearing on the loading and liquidating charges permitted under the regulatory laws of Ohio or other States. Let us discuss this and allied questions a little further.

It would appear that the first, or regular individual purchase, type of plan is drawn to interest the middle and higher income groups in purchasing more mutual fund shares. These plans generally set up substantial minimum amounts for initial and monthly investments. They are not concerned with lapses. The appeal is based primarily on the long-term advantages of "dollar cost averaging." To the investor, dollar cost averaging means investing regularly equal dollar amounts, buying the number of shares which current asset values would allow. Thus more shares are purchased when the price is low and fewer purchased when the price is high. The mathematical result over a period of time is that the average price paid when dollar amounts are invested regularly is lower than the average price paid when a certain number of shares are purchased regularly.

The second type plan would appear to be drawn more particularly in terms of the lower income groups. Minimum initial and monthly payments are lower in all plans of this type which I have examined. Then, too, although withholding a large part of selling expense from early payments is not peculiar to mutual funds, the presence of this feature in this second plan suggests a fairly high expected lapse rate.

Positive and Negative Factors

From an economic point of view, plans for the regular purchase of equity shares have much to recommend them. Although in the words of Beardsley Ruml: "By and large, new business is not the business of investment trusts," continuing market support by the Funds can provide certain sellers with funds for new ventures. Further, the regular and long-range aspects of the periodic purchase plans could mean more orderly marketing of investment trust shares. Possibly here the plans could help to reduce the "churning" or trade-outs of peoples' holdings through which salesmen have been known to increase commissions. The idea of "dollar cost averaging" is not a guarantee of successful investing, but periodic purchase plans would probably increase its use. Insofar as the plans would encourage the idea that investment for the middle income group is not a trading game, but a matter of long-term planning, certainly positive results would be effected.

From the Funds' point of view, of course, attracting the small investment dollar through periodic purchase plans contributes to all of the above named economic gains. The $4,000 to $10,000 income group, furthermore, may well be encouraged to participate in some of the plans under consideration. Still small in securities holdings, this group has annual income about 1½ times as large as the over-$10,000 groups. This middle group would likely have reasonably adequate reserves for emergencies.

The first of the plans discussed, the purely voluntary agreement, can serve these proper investors without the penalty aspects of the old instalment contracts.

But what of the less-than-$4,000 group? Two-thirds of all our national individual income goes to such persons. If periodic purchase plans are drawn to attract dollars from these incomes, with small minimum initial and monthly payments and the termination penalties, then some serious questions are suggested. The second type plan is not, it is true, an instalment contract, for the shares credited to an individual account may be withdrawn at any time upon discontinuation of the plan. However, with a large part of an 8-or-10-year loading charge removed from the first year's payments, the investor is "locked into" the Fund for at least half the period of the plan, if he is to avoid paying an excessive loading charge. Thus the investor who needs the greatest protection against termination penalties and the accompanying excessive loading charges is most likely to be subjected to them, under the second plan.

There are a certain group of persons in Ohio, we believe, who should not purchase investment securities under any periodic purchase plan which involves a definite time period for maturity. They are the people with limited means and small opportunities whose financial situation may change from day to day or from month to month. Family illness, domestic intranquility and other relative problems may cause them to demand immediate and prompt redemption of their investment. To put this group of persons in a periodic purchase investment program where they are highly penalized because of high selling commissions, if and when they need their money before their contract is fully consummated, is unfair from a blue sky standpoint and is also economically unsound.

What, then, are the questions to be suggested in a consideration of periodic purchase plans? Again they tend to spring from this question: At whom are they aimed?

Is the initially required investment of sufficient size to cause the investor to take the plan seriously?

How severe are the penalties for early termination of the plans? If cycles of change in income force the investor to terminate his plan, must he sacrifice a large first year loading charge?

Will the other shareholders in a Fund effectively bear an extra expense of operation (i.e., extra bookkeeping, legal, report, share-issuing expenses)?

The purely statistical aspects of these questions can be developed after more experience under these plans. However, I believe that the penalties which investors of limited means have experienced under previous periodic purchase plans can be avoided at the outset.

Above all, here is an area which would be regulated best from within the Investment Trust Industry. The NASD rules of ethics place a definite responsibility on the securities industry to sell to the investor what he needs and can reasonably carry. Periodic purchase plans can be set up to avoid the penalties which the investor of small means cannot anticipate, to work to the benefit of the industry and to avoid more rigid regulation.

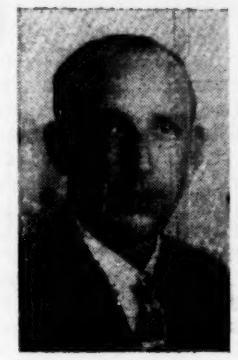
*An address by Mr. Johnston before 33rd Annual Convention of the National Association of Securities Administrators, Detroit, Mich., Oct. 11, 1950.

F. Aubrey Nash With Lester & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—F. Aubrey Nash and Eugene T. Porter have become associated with Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Nash was formerly with Kerr & Bell. In the past he was with Wm. L. Burton & Co., New York City, and with the New York office of H. C. Wainwright & Co. and of Stein Bros. & Boyce.

Thomas Euper Joins Edgerton, Wykoff


Thomas J. Euper

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Thomas J. Euper has become associated with Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly in the trading department of the Los Angeles office of Francis I. du Pont & Co. and prior thereto was Trading Manager in Los Angeles for Cohu & Co.

Gilchrist, Bliss Co. Opens in New York

On Monday, Oct. 23, Gilchrist, Bliss & Co., members of the New York Stock Exchange, opened its office in the new Look Building at 488 Madison Avenue, which is between 51st and 52nd Streets. The firm consists of the following partners: George Gilchrist, Frank E. Bliss, Ernest Jellinek, W. W. Goldsborough, Jr., Odette Patton and Karel Wyzenbeek.

Formation of Gilchrist, Bliss & Co. was previously reported in the "Chronicle" of Oct. 12.

Lamson Bros. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Richard M. Withrow is with Lamson Bros. & Co., 141 West Jackson Boulevard, members of the New York and Midwest Stock Exchanges. Mr. Withrow was formerly Dixon, Ill., Manager for Hulburd, Warren & Chandler.

Continued from page 8

Underwriting of Finance Company Insurance

share, convertible share for share into the company's common stock. Share for share conversion means the stockholder could, at any time, exchange one share of this convertible preferred stock into one share of common stock, regardless of the market price of either. Purchasers of these convertible preferred shares, therefore, had a call on common stock, for which they were paying $2.00 to $2.50 per share over the then market for the common stock but, on their investment, were getting the same dollar yield as the common.

With the new money in the balance sheet, the company arranged the sale privately of subordinated debentures to an insurance company, were granted additional unsecured bank lines and, in the next 24 months, with the new money and under favorable business conditions, so increased their earnings that they were able to pay $1.00 per share in dividends per year on the common stock, which then traded at about $13.50 to $14.00 per share. The 65,000 shares of convertible preferred stock, paying only 50¢ per share in dividends, were converted during 1947 into a like number of shares of common stock, with the exception of only some 1,500 shares which were purchased and retired by the company.

Six hundred thirty-five thousand dollars of the original preferred stock offering was thus converted into permanent capital in the form of common stock. This particular company then sold 100,000 shares of $.75 cumulative convertible preferred stock at $15.00 per share with a share-for-share conversion, and two years later sold another issue of 100,000 shares of convertible preferred stock at $15.00 per share, but with a $.90 cumulative dividend. Today, of the $3 million sold in these two issues, only 70,000 shares, representing roughly $1 million at the offering price, are still outstanding. The other 130,000 shares, or $2 million have become 130,000 shares of common stock and permanent capital. The company this year will probably earn $850,000 net after taxes, reserves, etc.

You will note that three different times now, they have sold common stock, in effect, at a premium. Their capital and surplus now totals $5,200,000. They have $2¼ million of subordinated debentures and bank lines commensurate with their $7½ million of capital funds. We have raised for Company "A", through the sale of convertible preferred stock, a total of $3,650,000 at the public offering price. The management is extremely happy, all of the stockholders are pleased with the market performance of their shares which are trading around the $16.00-$16.50 level for both the convertible preferred and the common stock, and the common stockholders are receiving $1.40 per share per year in cash dividends.

Common Stock Leverage

As they grow, the leverage in the common stock increases, interest rates on all borrowings go down, and sums available increase, with more than a relative increase in earnings per share for the common stock.

Where earnings are sufficient and the securities market is at all receptive to new issues, a long range program such as this can be achieved. Dividend rates and underwriting concessions may move up or down to insure a successful deal in terms of the short-term market swings, but a momentum is generated that makes each successive deal easier.

Because most of you here represent small companies—companies with net worth below $1 million—I should like to tell you how we sold, in two steps, 10 months apart, $1 million of subordinated debentures and 87,500 shares of common stock, for a total of $1,378,750 in new money for a company whose president is here today. I am speaking of Standard Factors Corp. of this city, of which Mr. Theodore H. Silbert is President. He has graciously consented to my giving some intimate details of the company, in the interest of forwarding the program of the industry.

At the time of our first offering of $750,000 of convertible subordinated debentures, and 22,500 shares of common stock, this company had $616,800 of 5% debentures outstanding, held by three private investors; $540,000 of preferred stock, privately held by the same three investors, and $97,900 of common stock. Because the principal investor was along in years, it was considered desirable to make a market on the company's common stock, to protect its very existence in the event of his death, concurrently with the raising of funds for the company. Standard had an average net after taxes, for the three preceding years, of $51,000.

By making the debentures convertible into common stock on the basis of 200 shares of common for each $1,000 debenture ($5.00 per share for each share of common), the deal was most successful. The market at that time was receptive to a 4¾% debenture with a good conversion, an annual redemption schedule, and the usual safeguards with respect to asset and interest coverage. Here again, we sold a security with a call on the common stock of the company. Book value of the common stock was a scant $1.00 per share at the time, and the conversion price was $5.00 per share.

As a result of the financing, the company was able to grow and put this common stock on a cash dividend basis. The market for the common rose to the conversion level and, ten months later, an offering of $250,000 of the same kind of convertible debentures, and 65,000 shares of common stock at $5.25 per share was quickly over-subscribed. Now, some three years later, $365,000 of the debentures have converted into 73,000 shares of common stock which is part of the permanent capital of the company. The company has a net worth of $1,730,000 and subordinated debentures of $1,338,000 including $750,000 placed privately; and very substantial unsecured bank lines.

Thus, as you see in this second instance, we were able to raise for Standard directly and indirectly over $2 million of working capital, which is now part of their base for short-term bank borrowings.

When earnings and/or net worth or the market preclude the public sale of subordinated debentures or convertible preferred stock, then the issuer is faced with the sale of common stock if he really wants to raise additional funds. Here I want to make an important point: owners of companies seeking outside capital should have a willingness to let those who contribute this new capital share liberally in the future profits of the business.

Impact of Income Taxes

The impact of personal income taxes and the treatment of losses and gains, both short and long term, as they affect individual investors, have changed the measure of what may be called a satisfactory money return. Today investors who contribute capital to your business want a share of the increased profits their contributions have produced. In any public financing, be prepared to give up a part of your ownership in the business.

Finance companies are newcomers to the equity market. If my figures are correct, one of the first public offerings by a company in this field involved the sale of 5,000 shares of 7% preferred stock in 1912, by Commercial Credit Corporation. That same company, to use it as a typical example of one of the largest, from published data, has averaged, from 1912 through 1949, 12.3% net after taxes per year on its average capital and surplus each year. Its peak year was 1948, when it earned 23.3% on its average capital. The lowest year was 1932, when it earned 0.63%. Last year the net after taxes was just over 17% on average capital and surplus used in the business. At the current market of between $52 and $53 per share, and earning at the rate of probably $8 to $10 per share for the current 12 months ($4.60 per share for the six months ended June 30), the stock is selling at about 5 to 7 times earnings. "Blue Chip" stocks were always considered a "buy" when they were selling at less than ten times earnings; now, they sell at 5, 6 and 7 times earnings, and are not considered cheap. Companies with long and favorable dividend records are included in this group, many with continuous dividend records going back 50 years or more. Smaller companies without this background and stability, obviously sell on a much lower times-earnings basis. You can see why, therefore, in the current market, in competition with the thousands of issues already outstanding, we are not recommending straight common stock offerings for the account of finance companies going to the public for the first time. To illustrate: current published figures for five finance companies, not in the top bracket for size, show a net-after-taxes return on equity capital of between 9% and 10%. At the present market formula, shares in these companies would be selling for much less than their book value, which is anomalous, as their book value is what we term "money good"—in other words, their assets are cash or approximately its equivalent.

We have, within the last 12 months, recommended and sold two issues of class "A" common. These shares were, in fact, a form of convertible preferred stock, carrying full voting rights and cumulative dividends of between 7% and 10%, plus a participating feature entitling holders of the shares to the greater of the fixed dividend or a percentage of the net profit of the company after taxes. Does that sound very high? Our investigation shows it to be about in line for yield with good common stocks in good finance companies, as well as long established industrial companies with excellent continuous dividend records.

The Underwriting Agreement

As underwriters, we discuss with prospective security issuers all or most of what I have just reviewed. Having arrived at a plan which we think can be carried through to completion, we then execute what is called an underwriting agreement. This is really a memorandum of the basis upon which we expect to go out and sell the securities. Rare indeed is the underwriting agreement now-a-days that does not have what we call "the outs," a long list of conditions, the existence of any one of which is conceded as a valid cause for the termination by the underwriter of his obligation to sell and pay for the securities. The maximum underwriting fee or concession is defined by statute in most states, and under the practical application of the various regulatory laws an underwriter may not take a principal position for a profit until the offering has been completed. As the profit is limited, the underwriter does not plan to "bank" a deal. That is, he does not plan to buy the issue and hold it for subsequent sale. I think this is important for you to remember. Investment bankers propose to sell your securities for you, and not buy them from you. Their commission or underwriting concession for this is rarely less than 10% and may go as high as 15% of the public offering price of the securities, and depending upon the size of the issue, the type of securities sold, the earnings record of the company and its size, and the general conditions of the securities market. By and large, small companies pay more for the sale of their securities than do larger companies.

Where an issuer plans to sell his securities in one state only, there is no need to register that offering with the Securities and Exchange Commission at Washington. It is, however, necessary to file certain exhibits and applications with the State Securities Commissioner under the Blue Sky Laws of the state in which the offering is to be made. If the sale is to be made interstate, that is, in two or more states, the issue must be filed with the SEC. Offerings of $300,000 or less are called "Exempt Transactions" and require the filing of only a letter in proper form with the Securities and Exchange Commission, notifying them of the intention to sell. A few days after the filing, the Securities and Exchange Commission gives clearance and the offering can then be made. This exemption does not, however, carry over to the Blue Sky Laws of the states, for qualification must be made in each state where the offering is to be made. Where the total offering price of the shares exceeds $300,000 and the sale is to be made in two states or more, then the issuer must file a registration statement with the Securities and Exchange Commission. Including auditors' fees for certified balance sheets, and the formal financial data required in the registration statement; legal fees for its preparation, printing costs and other expenses, total charges may range from $15,000 up, depending upon the work done. If an issuer plans an offering so he can have his year-end audit prepared with the offering in mind, a substantial saving in auditing fees can be realized. This charge is in addition to this underwriting concession. Therefore, in calculating the proceeds of an offering, a potential issuer must figure these expenses, as well as the underwriting concession. This often makes it desirable to sell $300,000 of securities, rather than to push for $400,000, or in some cases even $500,000.

Where a full registration statement is being filed with the Securities and Exchange Commission, a very keen sense of timing and an accurate "feel" of the market is vital, for there is usually a delay of from four weeks to eight weeks between the time an offering has been agreed upon between the issuer and the underwriter, and the date when the securities can be sold to the public. Part of this delay is due to the time required by the accountants and lawyers to prepare the registration statement, and the rest is due to a waiting period of 21 days during which the SEC investigates and reviews the data contained in the registration statement. This time is not all lost, for during this period the underwriter gathers what is called an underwriting group, composed of any number of other security distributing houses. They, together with the principal underwriter, are the ones whose salesmen actually execute the retail orders for the securities. At a previously agreed upon date, stipulated in the underwriting agreement after the SEC has given its release or the go ahead sign to sell the securities, and approval has been received from the various Blue Sky Commissioners of States in which the offering is to be made, the issuer receives its money in exchange for its securities, and at once, I might say, starts plans to go through the same process all over again. That has invariably been my experience.

I am told, and I believe it to be true, that new money is the food and drink of your business. You must keep getting more and more of it into your balance sheets or you lose your momentum and falter by the wayside. As an underwriter, I like this. It means repeat business, and we have found that successive offerings for the same company become easier and easier to do. This is particularly true if the projected earnings used in the sale of securities materialize into fact in the months that follow.

Money Market Now Unsettled

At the moment the new money market is very unsettled. Credit restrictions imposed by the Federal Reserve Board and the Treasury Department, the threat of increased corporate taxes and an excess profits tax, the talked of steep upward revision of personal income taxes, and the uncertainties of raw material allocations and war contracts, are causing investors to steer away from that which is not seasoned and familiar. Put your companies in shape now, for be sure there will come a time when you will be able to sell securities to the public provided you have a good clear cut record of growth, a first class loss ratio, and an unblemished record with your commercial banks. Timing is very important. It is even possible that 1951 will not be as grim as the pundits forecast, and that equity money will again be available as freely as it was, say in the Spring of 1946. Sound growth companies at that time had little trouble in raising additional funds and yours is a business whose growth, I believe, has just begun.

In the foregoing, I have given you a lot of abstract information respecting the raising of new money from the public, and have pointed out some of the difficulties.

I will fail miserably in this presentation if I do not leave with you at least one positive approach to the problem. I can tell you, of course, that for a rich enough concession and with liberal enough provisions in your articles, you can sell securities even in bad markets. In most cases, your cost would be disproportionate to your gain.

However, if you are planning public financing now, and are in the group of companies with a capital and surplus of less than $500,000, I would suggest that you try, instead, to get new capital from relations, close friends, or business acquaintances — possibly even from clients. These people know you for a good money making operator. $10,000 here and $5,000 there will help tremendously in building your company. You might even know someone who would invest as much as $50,000 in a block of five-year subordinated debentures, if you sell them to him at a discount so that he can get a worthwhile long-term capital gain when they are retired. There are such men

in the high income tax brackets who buy this kind of paper.

Make this a project for 1950-51. You can do this without the services of an investment banker with the attendant costs. In the event you sell debentures, be very careful to have them properly subordinated to your bank lines so that they will not be jeopardized.

If your company is earning approximately $100,000 net after taxes or better, perhaps you could increase earnings enough through the use of new money so obtained to justify the sale of a Class "A" common. See your investment banker and review your plans with him. I put it to you that, as a specialist in his field, his advice will be more valuable than that of your lawyer or your accountant, or possibly even your commercial banker. He specializes in his field as they specialize in theirs. He knows what is required at the moment in the way of a security to be competitive in the market. Show your investment banker what your plans are and what you can do with the extra money you seekif you get it. Maybe you can still do a successful public offering in 1950. Review your corporate structure and see that it is simple. Have but one class of voting stock, at least to beign with, and never forget that a 51% ownership of a company earning $500,000 is worth much more than a 100% ownership of a company earning but $200,000 after taxes.

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The Issues Facing Us

tom of the manpower barrel but the top layer.

We are already told that to raise our armed forces even to 3 million will require picking over the whole labor force from 19 to 26. The draft authorities will take their select material, will be tough about deferments, and will perhaps go above the 26-age group. We should not forget that the young people that will be drawn into military service during the next decade must come from the baby crop of the depression 30s. They are therefore already less than a normal proportion of the population. At the same time, the number of children and old people that the working force is called on to support has expanded.

With the increased demand for airplanes, electronic equipment, and munitions in general, there is a more than proportional stepping up in the demand for skilled workers and still more for workers of special skills. This has already created a bottleneck in the metal trades, transportation, and utilities. With the shortage of labor with special skills, we see a clear prospect of less than full utilization of other types of labor that have to be combined with the skilled workers in more or less fixed proportions. The second effect is to resort to overtime work. This adds to costs and thus complicates the inflationary process. Furthermore, the skilled trades are the well organized trades and thus the ones in a position to make the most of labor shortage as a means of raising wage rates. This is often accompanied by strikes or slow-downs.

Women's labor furnishes no such reservoir to draw upon as it did in the last war. This is partly because women who were added to the labor force then have in large numbers remained in the labor force under the high employment conditions that obtained even before the new military program was launched. A second reason is that, with the high marriage and birth rate of the war and early postwar period, a higher percentage of women are now tied down with young children and unable to increase the labor supply even if they wished to. Likewise, surplus labor has been pretty well drained away from agriculture.

The U. S. Employment Service has just stated that it expects shortly to get the number of the unemployed down below one million. That would be 1.5% of our present labor force and means scraping the bottom of the manpower barrel as hard as we did at the height of World War II. You all remember the experience of 1947-48, when unemployment in peacetime ran about 3.5%. You are quite aware of what a very low percentage means in terms of absenteeism, rapid labor turnover, high training expense, and generally impaired efficiency. Since we are presumably not going to be in the condition of actual war, where the motive of patriotism can be most fully appealed to, the labor-management problem will present maximum difficulty.

This is one aspect of the problem of physical production. Its other major aspect—availability of equipment and supplies—seems to me somewhat more hopeful, although by no means rosy. Both during and since the late war, we have done a tremendous job of increasing productive facilities. This is striking in the matter of electric power, which has now topped 6.5 billion kilowatt hours delivered per week to industries and homes, as compared to a little over four billion in the heaviest year of World War II. Similarly, the much-criticized steel industry has been steadily building from its war peak of 93 million tons to where it is now past 100 million in a systematic program that has as its goal 110 million tons of annual ingot output by 1955 or before. The coal, petroleum, and even aluminum situation are not acute, whereas zinc, copper, and lead are notoriously tight, and the stockpiling program has aggravated rather than helped this situation.

Taking our industrial plant as a whole, the stimulus of War II demand, aided by government financing and followed by an intensive five years of boom conditions has, broadly speaking, given us a plant and equipment that is quite capable of utilizing all the labor power that we have in prospect. Thus the problem is definitely one of avoiding faulty administration of the productive resources we have. A same 10-year preparedness program would not be crippled by lack of productive capacity.

Of course, if we are going to try to pile the whole of high preparedness requirements on top of our present civilian production, we will have an impossible situation. But this is not at all necessary. To an extent as yet undetermined, we shall be substituting military production for civilian production. In many lines of civilian supply, we have fat to draw upon.

As you are aware, the production index for the whole of 1950 has run at very high levels. From a low of 180 in February (higher than any month in '49), it rose to 213 in September (higher than any previous month in our history). It looks like a safe bet that the average for 1950 will be definitely above the 1948 previous top of 192, and this will be before any substantial drain into the filling of expanded military requirements has taken place. This means that a lot of the recent increased production has been going into equipment and inventories for industry. This will put producers and distributors in a position to meet the demands of 1951 more easily. Likewise, recent high production has contributed materially to satisfying consumers' requirements for durables, or even, as a result of scare buying, has anticipated the normal needs of the next few years.

Finally, it seems clear that housing activity will be cut one-third to one-half next year, with proportional curtailment in the market for house furnishings and supplies. This will come partly from a natural topping out of the housing boom but partly from the special impact of credit restrictions. So I shall need to return to this matter in connection with controls.

Prices, Incomes and Taxes

Turning now from the outlook for physical supply to the question of monetary demand and the price results of this supply-and-demand situation, it is trite to say that inflation is an outstanding issue for 1951.

The upward trend of prices that we have been in since 1946 and the prospect of more violent inflation from here on stems from our policy or at least practice of creating monetary purchasing power faster than we create goods. Now, broadly speaking, what we are planning to do just ahead is to apply the brakes to the supply of goods available to private and business consumers and, to a lesser extent, to the government as consumer. That is, the military program will take both men and materials out of the producing stream. At the same time, we will be applying the accelerator to the flow of monetary purchasing power. Wage rates are having a substantial fifth round increase, and more names on the payroll, fuller time, and more overtime workers will mean more ability and willingness to spend, except as the stiffening of credit terms acts as a partial offset. With the price mark-ups that have been going on, and the high rate of business profits, purchasing power in the company treasury or added to private incomes through more liberal dividend disbursements also feeds the available spending stream, unless mopped up by taxes.

As it stands, there would appear to be an inflationary gap of some $10 billion between the scale of expenditure envisaged in the military program and the apparent tax yield. This sets the problem which will confront the 82nd Congress when it convenes in January. Will it hold spending down and bring taxes up to a point where we have a balanced budget, with its disinflationary results? Or will it find itself unable to throttle the spending stream down below the $55 or $60 billion figure and find that individuals and business revolt against being throttled with taxes that match that amount? My guess is that we shall go into fiscal '52 with an estimated budget deficit of not less than $5 billion, perhaps $10, conceivably even more. If so, that would mean a resumption of inflationary forces.

I say "resumption" because we are probably going to have a temporary and deceptive lull during the next few months. This is a very important point both for your business planning and in its bearing on what Congree will do with reference to spending and taxing next winter.

First, let us look at the facts. After the slight period of uncertainty in the spring of '49, wholesale prices held around the 151-53 level for nearly a year. Following the Korean outbreak, they spurted forward to nearly 170 in September. Since then they have been in a sidewise movement, which might last for some weeks or even months. There may even be some decline. The reasons for a temporary lull in inflation are quite plain. One is the normal seasonal decline in agricultural prices. Meats always go down at this season, and so do many other farm products. Scare buying has abated, and both private and business purchasers who overstocked themselves will be temporarily out of the market. Furthermore, certain lines of industrial output, and probably housing, had caught up fully or partially with replacement demand, and producing capacities have not yet been drawn away in any considerable degree from civilian production by the expanded military program.

Here the question of timing is very important. And the Government's position in the short run is pretty good. They stepped in rather promptly to deflate the credit factor in current purchasing power. They acted with equal promptness in raising tax rates. Through both direct and indirect effects of these actions, the amount of purchasing power being put into the market against the supply of goods is being held down (although it is rising from stimulated employment and advancing wage rates). This damping of buying occurs at a time when physical supplies are being maintained or even enlarged.

This condition will probably continue pretty much to the end of the present fiscal year (that is, next June) since actual disbursement on government orders is not expected to rise substantially until well into the second quarter of '51. The result to the businessman of this combination of events, although of course differing from one line to another, seems to be: rising costs of labor and, in differing degrees, of equipment and supplies; higher taxes; and a flattened out or more slowly rising price level—in general, less profit after taxes.

Turning to the public effect of this development, the lag in the rate at which actual government disbursement will increase, together with the immediate increase in Treasury revenue from increased taxes, will mean the practical disappearance of any Federal deficit during the present year (in which a deficit of over $5 billion had been estimated). I have some apprehension that this may make Congress less willing either to hold down on expenditures or to raise taxes. If so, they will be paving the way for larger deficits and more extreme inflation in the latter part of '51 and in subsequent years.

Government Controls

My third point must be dealt with very briefly. It relates to controls by government as a means of getting maximum war production and at the same time avoiding inflationary complications.

People pretty generally are beginning to feel the pinch of rising prices or are becoming aware of the deeper dangers of undermining the U. S. dollar. A few of them would be willing to make the fundamental changes of policy and practice that would correct weaknesses or remove this danger. But most of us are unwilling to do this. It is so much easier simply to shout: "There ought to be a law." Hence public opinion needled Congress to enact a sweeping control act before it recessed. This was done in the naive faith that because you call it a control act, it will in fact restrain or adequately regulate. Now they are screaming at Mr. Truman and Mr. Symington because they have not rushed in to erect a vast machinery of control agencies, promulgate the regulations, and demand the reports which would bring back the days of World War II.

As I said earlier, if we are really moving into World War III, then the quicker we impose tight and complete military rule on the

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M. Scott Stout With Morgan & Co.

M. Scott Stout

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—M. Scott Stout has become associated with Morgan & Co., 634 So. Spring St., members of the Los Angeles Stock Exchange. Mr. Stout was formerly in the trading department of the Los Angeles office of Blair, Rollins & Co., Inc. In the past he was with Walston, Hoffman & Goodwin and Maxwell, Marshall & Co.

Stevenson, Ruskin With Singer, Bean

John H. Stevenson, for many years Managing Partner of the recently dissolved Ward & Co., has joined Singer, Bean & Mackie, Inc., 40 Exchange Place, New York City, as Vice-President. Mr. Stevenson, during his 24 years with Ward, became widely known in the trading fraternity throughout the United States.

Simultaneously Edward Ruskin, also formerly with Ward & Co., has also been elected as Vice-President of Singer, Bean & Mackie, Inc. Mr. Ruskin once operated his own securities business under the firm name of Ruskin & Hayman.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif. — George H. Pittman has been added to the staff of Waddell & Reed, Inc.

Bateman, Eichler Adds

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—Charles L. Cronk has joined the staff of Bateman, Eichler & Co., 28 North Garfield Avenue.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

"Open mouth operations" seem to have taken over in the government market as the effective force now in keeping operations off balance. Rumors as to what is going to happen to interest rates and reserve requirements are flying fast and furious in the financial district. Under such conditions, it is not at all surprising that operators and investors are not inclined to do more than necessary business. Defensive tactics, including short selling, are reported to be at minimum because the belief is fairly prevalent that present quotations have pretty well discounted the many developments which could take place in the money markets.

The bank issues went to new lows because of the many uncertainties that are overhanging them, especially the fear of higher reserve requirements. The edging up of short-term rates also helped to keep them on the defensive. Nonetheless, rallying tendencies have been evident in the eligibles. The Vics continue to be the real stable issues, with some price shading appearing in the other restricted obligations. Until a top is reached in short-term rates or the reserve situation is resolved one way or another, there is quite likely to be a lack of definiteness in the governmnt market.

Federal Dampening Loan Enthusiasm

Federal continues to keep operators in the government market on the anxious seat by moving short-term rates up and by making good use of "open mouth operations." These two forces have taken toll particularly in the eligible sector of the market, because buyers have largely withdrawn to the sidelines, especially in the longer end of the list. The uncertainty which surrounds the whole government market is the Central Bank's way of attempting to slow down the strong upward loan trend. By keeping short-term rates fluctuating and in an upward trend, Federal is making it more difficult for member banks to create reserve balances, which are used to make loans. If the Central Banks can make it more risky and costly for the deposit banks to create reserve balances, there may be a retarding of the strong loan trend.

The tightening of the money market and the keeping of it on the defensive means the member banks will be taking losses in many instances when they dispose of Treasury obligations in order to get reserve balances, which are used for other purposes, mainly loans. Raising of reserve requirements would also strengthen the position of the Central Banks, because by selective purchases of government securities from member banks at higher yields there would no doubt be losses, which the deposit institutions do not like to take. This should have a restricting tendency upon the creating of reserve balances.

How far will Federal have to advance money rates before there is a lessening of the demand for loans? This is the $64 question, but many opinions in the financial district seem to indicate that only a minor firming from current levels will do the trick. In some cases there is the belief that a fluctuating short-term rate, remaining more or less in the present area, coupled with only intermittent and selective purchases of member banks' securities, will go a long way towards slowing down the creation of reserve balances, which are so necessary in making loans.

Fear Psychology Effective

Open market operations are being combined with "open mouth operations" to give the Central Banks two rather effective weapons in the current assault against inflation. It appears as though the latter, "open mouth operations," are even more effective at the present time than the open market operations. The government market is so full of rumors about when reserve requirements will be raised that most operators (aside from Federal) are not inclined to take on any issues, because of the fear of lower prices, which they believe would result if reserves were increased. The business of dealers at the moment is being done mainly "on orders."

On the other hand, large commercial banks are now concentrating principally in Treasury bills or very short notes, where there are investable funds. The uncertainty over reserve requirements is likewise bringing some liquidation, not yet heavy, into the eligible 1956 and 1967 maturities. There has also been some nonbank-investor selling of these issues. The fear of lower prices in these securities if reserves are upped is the answer to this liquidation. Although buying of the 1956 and 1967 bank issues has not been very sizable, there has been and still is some important scale buying being done by the out-of-town commercial banks, especially those institutions which have savings deposits. There is no doubt about this scale buying being continued even if there should be a widening of the spread between bids. Some of these buyers look upon this weakness in the higher income eligibles as a real buying opportunity.

The restricted issues, except for the last two maturities, also gave ground to some extent but were not as shaky as the bank obligations, because they continue to have the benefit of official support. Nonetheless, the Central Banks are still not inclined to take all the bonds offered them, and this goes for the Vics as well as the others.

James J. Leff Co. to Be Formed in N. Y.

James J. Leff & Co., Inc., will be formed as of Nov. 1 with offices at 50 Broad Street, New York City, to act as dealer and broker in unlisted securities. Officers are James J. Leff, President and Treasurer, and M. W. Leff, Vice-President and Secretary. Mr. Leff was formerly with Torpie & Saltzman.

Chas. Strickland With American Securities

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Charles M. Strickland has become associated with the Chicago office of American Securities Corp., 111 West Monroe Street. Mr. Strickland was formerly Chicago representative for the "Commercial and Financial Chronicle."

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The Issues Facing Us

economy, the better. But if we are fixing for the long pull of an economy efficiently organized to carry a preparedness burden, I think we should go only slowly and with great discrimination into the area of controls. Didn't the NRA, and the AAA of the 30's teach us anything about the limited powers of real economic adjustment which reside in these grandiose machines of overhead rule in business affairs? Didn't it teach us anything about their vast powers of mischief? Didn't the OPA, WPB, and numerous other alphabetic agencies of World War II give us a bellyful of the delays and the costs and the frictions that result from remote control of our complex and fast-moving business process?

To say this does not mean that I am "agin' the Government" or a disciple of *laissez faire*. Both those episodes of socio-politico-economic experimentation were reasonable and probably necessary in the crisis situations in which they were invoked. They taught us a great deal about what you can and cannot do in directing great masses of human beings not under military discipline. Let's not forget these lessons.

I'll tell you very simply one or two things that those experiences teach me. The first is that there is a big difference between physical controls and value and price controls. The second is that there is a great difference both in practicability and effectiveness between the governmental determination of great overhead forces and the attempt to make minute regulation of the terms of personal operations and transactions. In concrete terms, this would mean that the controls already initiated over inventories and priorities can, if applied firmly but reasonably be a very real help in preventing bottlenecks and easing conversion to the lines of production most needed for the kind of preparedness program we actually undertake. Probably the test here will be whether the control authority can be vigorous but not arbitrary in establishing a few relatively important limitation-of-use orders which discriminate sensibly between essential and non-essential lines of production.

While of course our industrial system is interrelated in very complex ways, it is in my judgment possible to apply specific controls to the flow of materials at strategic spots and to initiate, strengthen, relax, or terminate and abandon them without getting mired down in over-minute regulation or becoming enmeshed in regulation of the whole physical process.

I draw a sharp contrast here between regulation of physical movement and the attempt to regulate the inexpressibly complicated and largely psychological relationships of our price system. This, I think, is a quicksand which we would be wise to avoid unless we are forced into an all-out shooting war. Control in this area is all the more difficult because price relations involve wages, and wage relationships have both contract rigidities and political involvements which make any workmanlike or scientific outcome hopeless from the start.

My interpretation of our past experiments in this field leads me to believe that a good deal of desirable influence on prices can be accomplished by direct or physical control of materials on the one side and central bank control of credit on the other side. But actual involvement in the price-making process reduces the flexibility of business adjustments, which is the thing which we need to promote and preserve to the greatest extent possible in the changing conditions of war preparedness to which individual business operations must be adapted.

Furthermore, controls over the price system involve adding an enormously costly bureaucratic sytem within the government and entail heavy costs of reporting, negotiating, and the like on business concerns. I think that if Mr. Valentine can keep his Economic Stabilization Agency down to an advisory rather than an operative role, he will have earned the gratitude of his fellow citizens.

As for credit controls, the present circumstances give us an excellent opportunity to learn a new lesson in the theory and practice of central banking. We showed ourselves unwilling to continue consumer credit controls at a time when they would have served to check inflationary pressures before Korea. Now the Federal Reserve Board is being permitted and even encouraged to use larger powers to contract liquid purchasing power which had been unduly stretched. Early evidence indicates that in the circumstances in which it was applied, this general type of control is quite powerful. Affected business is yelling that it is too powerful—because it lessens demand for their product. Well, that was the intention. If we are to prevent inflation and shift from civilian to military supply, this is one of the most — perhaps the most — manageable and effective means of carrying out the national economic policy. It has the great merit over price controls that it does not freeze market relationships but can be flexibly adapted to changing conditions.

I hope my comments on the current business picture have not seemed gloomy. I believe in fact it is a picture compounded of sunshine and shadow. But in this land of ours, it lies within our own power to dispel the shadows and to make the light of reason prevail. That is why it is of the utmost importance that we use the present lull—military, legislative, and economic—to get set for the long pull.

Fennelly Director

John F. Fennelly, partner of Glore, Forgan & Co., was elected a director of Libby, McNeill & Libby, food canners. He fills the vacancy on the Board which was left by the death of Charles F. Glore.

During the last war, Mr. Fennelly served on the War Production Board. He has been Executive Director of the Committee for Economic Development and is a Vice-President of the Investment Bankers Association of America.

Werner G. Smith, Inc.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Werner G. Smith, Inc., is engaging in a securities business from offices in the Union Commerce Bldg. Officers are Werner G. Smith, President; Wademar Meckes, Jr., Vice-President and Treasurer; Raymond V. Paul, Executive Vice-President, and Clayton A. Quintrell, Secretary.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

PERU, Neb. — C. A. Huck is associated with the staff of Waddell & Reed, Inc., Kansas City, Mo.

The Impact of Pensions on the Economy

By ROGER F. MURRAY*
Vice-President, Bankers Trust Co., New York City

Mr. Murray calls attention to rapid growth of pension funds and their effect in increasing demands for available investments. Cites growing opinion that common stocks be acquired by institutional investors and contends this would be a sound development.

More than 13 months have elapsed since the Steel Industry Board published its report of Sept. 10, 1949 disapproving a direct increase in wages but commanding very highly the establishment of private pension plans to supplement the Federal Old Age and Survivors Insurance System. We have seen, of course, a very substantial growth in pension plans, particularly in the mass production industries where hourly-paid workers had not been widely covered by private plans. The past year has also witnessed a substantial revision in the terms of the Federal Old Age and Survivors Insurance System, with corresponding adjustments in the provision made for employees and their dependents.

Roger F. Murray

More recently, the emphasis in wage negotiations has shifted away from supplementary benefits to direct wage increases, stimulated both by the rising cost of living and by the very high level of employment. This may be a good time, therefore, to pause for consideration of the newly established level of pension fund accruals and to visualize some of the consequences for the economy. Such estimates as we have been able to make all support the belief that there has been a substantial permanent increase in the volume of funds seeking investment from this source. Our best estimate is that the annual additions to insured and trusteed pension plans will soon be running in the neighborhood of $1¾ billion, of which more than half will be added to pension trusts. By way of comparison, the growth in life insurance company assets, including payments for group and individual annuities under pension plans, is running about $4 billion a year. On the other hand, mutual savings banks will probably add less than $1 billion to their assets this year, and savings and loan associations are likely to gain less than $1½ billion.

The Stability of Institutional Savings

One significant aspect of this growth in pension plans is, of course, the fact that there has been an important addition to the large and relatively stable flow of institutional funds seeking investment. To be sure, the amount of pension fund accruals will vary somewhat between good years and bad, but I would expect the total to show no greater variation than the volume of life insurance premiums. It is a very significant development that even under reasonably adverse economic conditions we can expect to have a minimum of between $5 and $6 billion a year of institutional funds available for new capital investment. In relation to corporate security issues for new capital of $6.2 billion in a boom year like 1948, this is a most impressive figure.

The continuity of this stream of life insurance premiums and pension contributions raises some very interesting questions. It challenges traditional thinking about the function of interest rate changes in stimulating or discouraging individual savings. Habits, salesmanship, and wage contracts, rather than the rate of interest, have become the principal determinants of the size of the stream. We have, in short, a flow of savings which is high and relatively slow to change, while we well know that the demand for capital continues to fluctuate with the volume of business expenditures and housing. The management of the public debt under these circumstances will be the principal element in equating supply and demand factors at relatively stable rates of interest. It should be observed in passing that a large volume of long-term marketable governments is necessary to provide this flexibility in the institution-dominated bond markets. Reliance on nonmarketable issues, if carried to an extreme, would seriously interfere with the functioning of debt management in providing a balance.

It is unreal to go too far in this discussion, however, without reference to the very important question of yields. The rate of return is one of the major cost determinants of pension plans. As pressure has been applied to enlarge benefits, it is natural to find greater emphasis on reducing pension costs by searching for means of raising the average rate of return. A 2½% rate on long governments, if widely accepted, serves only to reduce this average. The pension fund manager gets slim comfort from the thought that there will be plenty of high-grade bond investments when he realizes that he will be making them either at a 2½% rate or at a narrowing spread from that basic rate.

Trends in Pension Fund Investing

Such, then, are the rough magnitudes of the pension fund accruals involved, the general situation in the capital markets to which they contribute, and the serious problem of rate of return. What are the results? What are the new developments? What shall we expect in the future?

In considering the impact of these pension funds upon different portions of the capital markets, we are, of course, greatly handicapped by the lack of adequate statistics. We are obliged, therefore, to speak in terms of general trends rather than in terms of specific amounts. In the case of insured plans, of course, the investment activities are merged with the other operations of the life insurance companies and pension plans simply serve to enlarge the amounts invested. The more interesting field of study, therefore, is the investment operations of trusteed pension funds, which probably involve accruals of close to a billion dollars per annum.

Insofar as I have been able to determine, trusteed pension funds invest very small amounts indeed in real estate mortgages or income-producing properties. We can fairly state that they are a negligible factor in this highly competitive field. The statistics appear to indicate that pension funds have been buyers of long-term governments, but the amounts may not be too large on balance. In the field of corporate bonds, of course, pension funds have been an important factor as in the past. The new development of importance is undoubtedly the increase in the proportion of pension fund investments being made in common stocks. It appears that in every part of the country greater emphasis is being given to the use of common stocks, so that it is in this area that we are likely to observe the most important results of the expanded volume of pension fund activities.

There are many different reasons given for this trend. If they are valid, we should expect common stocks to become even more important; if not, we may assume that we are merely witnessing an investment fashion or fad, which will follow others into oblivion in due course. Some of the less impressive arguments have emphasized the relative stability of common stock prices in a predominantly cash market, the cheapness of stocks in relation to book values, or the fact that persistent inflationary tendencies ought to support present prices. These and similar lines of reasoning may be giving undue weight to transitory factors or to debatable assumptions as to the future.

However, I believe that stocks are being purchased, and should properly be added to pension trusts, on the sound basis of the yield differential. The relatively large volume of funds seeking investment in evidences of debt has distorted the relationship between rates of return. It is the function of mobile capital funds to take advantage of the disparity. Dividends adequately covered by established earning power provide a rate of return more than double the 2½% basic long-term interest rate. The practice of dollar averaging purchases so convenient in the accumulation of a fund provides further assurances that timing will not be a handicap to the program. Investments are being restricted to stocks of good quality and speculative situations avoided. It seems to me that purchases in suitable proportion of high-grade common stocks are entirely appropriate, provided the protection of dollar averaging is consistently obtained. It is indeed impressive how investment experience with stocks compares with bonds at the present wide differential in rates of return when account is taken of the reinvestment over a long period of years of the additional income collected.

In New York the atmosphere has also been made much more favorable to common stock purchases. As you know, we used to have a rather rigid and restrictive legal list governing investments by fiduciaries. At the last session of the legislature, however, the law was rewritten to permit investment of up to 35% of any fund in non-legal securities including common stocks. This, of course, had no direct application to the provisions of pension trusts, but it was bound to influence thinking about equity holdings.

Volume of Common Stock Purchases

Thus, I believe the larger volume of common stocks being purchased in pension trusts is a sound development and therefore one which is likely to last. It would be very helpful if we could compute the volume of such purchases, but the information is not available. Using rather fragmentary data and taking a rough guess at the magnitudes involved, we have concluded that annual common stock purchases in trusteed pension plans are currently at a rate between $100 million and $200 million. By way of comparison, net sales of open-end investment trust shares averaged slightly more than $200 million a year for the five years 1945-1949 and are likely to exceed $250 million in 1950.

Common stock purchases for pension funds may be more important than indicated by these figures for two reasons. First, the shares purchased are rather permanently withdrawn from the floating supply. Secondly, there is a presumption that buying will continue in good volume even under adverse conditions, in accordance with the dollar averaging principle. Thus, we may conclude that a stabilizing factor of some modest significance has been introduced into the equity capital markets.

Regularity of income and reasonable stability in price are among the most desirable characteristics for pension trust common stock investments. This naturally raises the question whether there should not be a revival of the simple type of class "A" stock. I have in mind the stock which had a preference as to dividends up to a certain amount, after which it shared with the class "B" common stock. If the SEC would agree, perhaps voting power could be limited to years in which the preferential dividends were unpaid. Without elaborating further, it seems to me that investment bankers should consider ways and means of tailoring equity securities to this new market which may be greatly enlarged some day by the addition of life insurance and other savings institutions to the group of purchasers.

Pensions as a Cost and a Liability

The preceding discussion has dealt only with the impact of pension funds on the capital markets. While the results are significant and thought-provoking, we should not forget the cost and liability aspects of industrial pensions. In the production of goods and services, employer contributions are a cost similar to wages and salaries. When the bargaining power of the employee is strong, any contribution he may make is likely to be shifted to his employer. Thus, we must consider the increases in costs which may or may not be easily shifted to the public in the form of higher prices. A striking illustration has been the United Mine Workers' benevolent fund with its increased royalty payments.

The problem of actual or contingent liability can easily become very much involved in technical questions as to proper treatment and full disclosure. The real problem in the appraisal of securities is to make the proper distinction between the company which is funding its pension responsibilities and its competitor which has made no provision for accrued obligations. There are two separate fields of study: the balance sheet or picture of present financial strength and the income statement or structure of costs. Especially in industries where pension patterns have been fully established, the provision made or to be made is clearly a pertinent question in any investment appraisal.

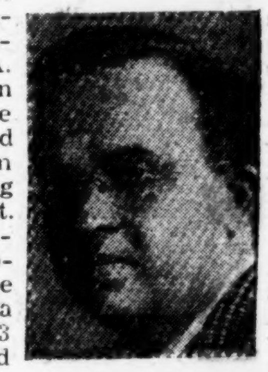
Recognition of pensions as a cost of doing business raises the question as to whether these increases in costs can be absorbed out of gains from improving the efficiency of the use of all our resources. If we should fail to maintain such productivity gains over the years, or if we pledge them over and over again for other purposes, there can be only one consequence in the long run. We shall issue too many claims to goods and services relative to our capacity or willingness to produce them. The escape from these payments is, of course, to dilute their value, the familiar process of inflation.

The record of the past, fortunately, is reassuring, and we need not conclude that such distressing and socially disruptive consequences are inevitable. Achievement of the necessary gains in productivity, however, depends upon the availability of capital and its most effective application. Investment bankers and institutional investors both share in the responsibility for achieving this objective.

*An address by Mr. Murray before the New England Group of the Investment Bankers Association, Boston, Mass., Oct. 19, 1950.

Almon Hutchinson With Kidder, Peabody & Co.

PHILADELPHIA, Pa.—Kidder, Peabody & Co., members of the New York Stock Exchange announce that A. L. Hutchinson has become associated with them in their trading department. Mr. Hutchinson will be located in the Philadelphia office, 123 South Broad Street.



Almon L. Hutchinson

Mr. Hutchinson has recently been with the trading department of Cohu & Co. in New York City. Prior thereto he was with H. M. Byllesby & Co. and Buckley Brothers.

Simon, Strauss Partner

Irving H. Silberfeld will become a partner in Simon, Strauss & Himme, Savoy Plaza Hotel, New York City, members of the New York Stock Exchange, on Nov. 1.

With Del. Fund Distributors

Delaware Fund Distributors, Inc., 52 Wall Street, New York City, announce that William J. Fry, Jr. has become associated with the firm.

Municipal Financing of Utilities

By LINCOLN E. CAFFALL*

Consultant on Municipal Finance with Wainwright, Ramsey & Lancaster, New York City

Mr. Caffall explains main types of bonds issued by communities to provide for construction, extension or purchase of utilities. Cites basis and reasons for issuing revenue bonds as against general obligation securities.

Broadly speaking, there are three main types of bonds issued by communities to provide the capital necessary for the construction, extension, or purchase of a utility system. These types are (1) general obligations secured by the ad valorem taxing power of the community, (2) general obligations additionally secured by a pledge of sufficient revenues, and (3) revenue obligations secured solely by a pledge of the earnings of a project.

Lincoln E. Caffall

The first category—general obligations backed by taxing power—constitutes the oldest and still most generally used method of obtaining capital for community improvements. The issuance of general obligations for a utility is based upon the theory that the improvement is of general benefit to the community and the property tax is the real estate owner's proportionate share of the cost incurred without consideration of the direct service rendered.

Many cities in the nation have earned highly satisfactory reputations for the prompt payment of debt over a long period of years and, accordingly, could issue general obligations on a suitable basis for any reasonable purpose, within charter or statutory limitations. These very limitations—created to protect the taxpayer and bond purchaser alike — however, frequently rule out the use of the general obligation bond for utility purposes. This develops from the fact that it is usually considered desirable to leave an adequate debt margin for other worthy improvements, such as schools, which are not revenue producing.

On the other hand, one reason many communities still rely upon the issuance of general obligations is that usually they are thus under no compulsion to charge rates which are in any way related to the cost of providing the service. For instance, one nearby major city prefers to have revenues from its highly profitable water system enter the general fund directly and to pay the water debt from real estate funds. This system is a more or less hidden method of keeping the real estate tax down at the expense of the water consumer.

Along similar lines, the issuance of general obligations by New York City for utility purposes is preferred by the local officials for an entirely different reason. Under existing laws, New York City is limited in the amount which it can levy each year for operating purposes but the tax which may be levied for debt service requirements is unlimited. Inasmuch as a vast number of the voters in New York City are not property owners and, therefore, do not object directly to the tax rate, it is considered expedient to charge rates to have such services as the transit system earn only enough to pay operating and maintenance expenses, while the related debt service requirements are met from the real estate tax.

The second category of bonds I mentioned was general obligations also additionally secured by a pledge of the utility's earning power. This variation of the simple general obligation has been developed for several reasons. In the first place, many communities do not have sufficient credit to market a comparatively large amount of bonds without pledging revenue in addition to the real estate tax. This condition may result from any one of a number of circumstances or from a combination of several—for instance: a poor debt paying record, or a poor tax collection record, or the existence of a large debt issued for other purposes, or taxing limitations too stringent to permit paying debt charges and normal municipal operations from the real estate tax alone. Secondly, under the laws of some States, this method will allow the deduction of the self-supporting utility's indebtedness in the computation of the debt borrowing capacity.

While the use of this type of obligation is not as widespread for water or sewage purposes as either straight general obligations or revenue bonds, an illustration of the higher regard investors have for some of the bonds of this combination type is found in the Knoxville Funding 4s of 1937, which are general obligations secured additionally by a pledge of net water revenues, and the Refunding 4s of 1939 of the same city which are also secured by a pledge of the taxes paid by the city's water and electric systems. The latter pledge constitutes essentially a lien on the net earnings of both systems. In both cases, the bonds sell at a higher price than the ordinary general obligations of the city.

This combination type was used a few months ago by the cities of Bristol, Virginia, and Bristol, Tennessee, when they financed their joint sewage works program.

The third type of obligation—the revenue bond issue—is rapidly gaining increasing recognition as an excellent vehicle for financing utilities of a public character. In the purest sense of the term, a revenue bond should be defined as an obligation secured by and paid from the earnings of a public project planned to be fully self-supporting from the revenues received for the services rendered. You will notice that this is an entirely different basic theory for the issuance of debt than the one I mentioned earlier in connection with general obligations issued for utility purposes. I should add here that the term "revenue bond" ordinarily is much more loosely used and includes any obligation payable only from dedicated revenues regardless of the source. For instance, the State of Washington issued "revenue bonds" to pay a World War II bonus. Those bonds are not general obligations and are payable only from the proceeds of a cigarette tax.

To show the acceptance of revenue bonds by both political entities and investors as a method of financing, I would like to point out that although such bonds did not appear in any volume until after the creation of the Port of New York Authority in 1921, I would estimate that about 15%—or upwards of $3 billion—of the total bonded indebtedness of the States and their subdivisions is now in the form of revenue obligations. While, in general, revenue bonds do not yet enjoy as wide marketability as general obligations, due partly to investment regulations which have been in existence for many years, the obligations of such large scale borrowers as the Port of New York Authority, Triborough Bridge Authority, and the Pennsylvania Turnpike Commission are readily marketable at any time. With the passage of time, accompanied by the satisfactory historical record of revenue bond enterprises, the number of investors who readily accept revenue bonds is steadily increasing. As the education of the investing public and its advisors progresses, the buyers of tax-exempt obligations who will include revenue bonds in their portfolios will continue to grow.

To a certain extent, the development of revenue bond financing—particularly in the earlier years—could be likened to "Topsy" who just "growed." Not merely by chance, however, has the attitude of investors toward revenue bonds been improved over the years. Not too many years ago, all revenue bonds were considered to be second rate investments. It took a far better than average record during the depression years, when many general obligation bonds fell by the wayside, to open the eyes of investors to the possibilities inherent in revenue bonds of utility enterprises whose financial strucures were soundly conceived. It has taken ingenuity, active cooperation on the part of borrowers and investors, and sincere efforts by all involved to create the modern revenue bond.

*Excerpt from paper presented at the Annual Meeting of the Kentucky-Tennessee Section American Water Works Association and Kentucky-Tennessee Industrial Wastes & Sewage Works Association, Memphis, Tenn., Oct. 23, 1950.

Kaiser Steel Stock Publicly Offered by First Boston Group

An underwriting group headed by The First Boston Corp., and including 234 investment houses throughout the United States, on Oct. 25 offered 1,600,000 units aggregating 1,600,000 shares of $1.46 cumulative preferred stock, stated value $25, and 800,00 shares of common stock, par value $1, of Kaiser Steel Corp. at $25 per unit.

The offering forms part of a $125,000,000 financing program which also includes the direct placement with a group of institutional investors, including among others, The Prudential Insurance Co. of America; Metropolitan Life Insurance Co.; New York Life Insurance Co.; The Mutual Life Insurance Co. of New York, and The Northwestern Mutual Life Insurance Co. of $60,000,000 3¾% first mortgage bonds due 1970 and a $25,000,000 bank credit agreement with the Bank of America, Mellon National Bank of Pittsburgh and The Chase National Bank in New York.

Units, each consisting of one share of preferred stock and ½-share of common stock, are transferrable only as such until Oct. 1, 1951, unless separated earlier by action of Kaiser's board of directors.

Of the proceeds of the entire financing program, $91,185,990 will be used to repay existing loans in that principal amount outstanding with the Reconstruction Finance Corporation and $25,000,000 will be available for a construction program at the Kaiser Steel Corp. plant at Fontana, Calif., which includes new steel ingot capacity and the construction of a new mill for the production of tin plate. The remainder of the proceeds will be added to working capital.

Canadian Securities

By WILLIAM J. McKAY

The first timid steps in the direction of the elimination of the rigid wartime foreign exchange restrictions have already had encouraging repercussions. European free enterprise, for so long stifled in a mesh of bureaucratic controls, had previously been deprived of almost all initiative with regard to foreign investment. Now that it is possible to see the first glimmer of light on the previously obscured international horizon a new wave of foreign investment consciousness has been set in motion.

Nowhere is this spirit more evident than in Great Britain, and no country is inspiring greater interest than the Dominion of Canada. It can be truly said that Britain's senior Dominion is now in the process of being rediscovered. During the period moreover when British capital was virtually powerless to act, Canada had commenced a new era of dynamic expansion. Normally British investment and industrial enterprise would have participated with the United States in this phase of development, but official restrictions raised an insuperable barrier. Capital was permitted to flow freely to the sterling areas of the British Commonwealth but not to Canada.

Following however the recent striking improvement in the United Kingdom exchange reserves the British official policy with regard to Canadian investment is now more flexible. As a result, the opinions long held by many experienced observers concerning the importance of Canada in the British economic scheme are now commencing to prevail. What has been evident for many years, that Canada would ultimately take the place of this country as the world's greatest source of raw materials and the site of vast industrial projects, is now fully realized in British commercial and financial circles. It is probable therefore that the British movement towards Canada will mark another important milestone in the Dominion's economic history.

A movement of this kind is only logical if merely representing a normal expansion of British industry, which by reason of declining domestic resources, can not be readily attained in the British Isles. There is now however a more impelling reason for British interest in Canada's enormous economic potential. Industrial concentration in the restricted area of the Mother Country is already a cause for concern in military quarters. Consequently the tremendous scope for industrial expansion available in the second largest country in the world, with its vast virgin wealth of natural resources, provides the ideal solution of Britain's problem of industrial decentralization. British industrial migration to Canada would not only serve the interests of the United Kingdom but it would also play an important role in Canadian economic progress. British industrial skills and experience of centuries in pioneering enterprises abroad could hardly fail to achieve results which would compare with the accomplishments of the past. To judge from the present British enthusiasm concerning Canadian economic prospects there are scarcely any bounds to the Dominion's potential for future expansion.

When it is considered that the coming British stimulus to Canadian development will be added to the powerful impetus already provided by U. S. industrial and financial interest, optimism of this order is perhaps not unduly exaggerated. Faith in Canada's high economic destiny is moreover no longer confined to U. S. and British opinions. French, Dutch, and Swiss industrial interests are also paying increasing attention to the possibilities for industrial expansion in Canada's great Northern Empire. This world-wide interest has all the more significance at this time, and consequently the idea of Canada becoming the greatest arsenal of democracy is gaining universal acceptance. The signing this week of a modified U. S./Canadian Hyde Park agreement marks in practical form a further development of this new Canadian economic upsurge.

During the week the external section of the bond market was dull and neglected but the demand for internal Dominions was further intensified. The anticipated post-revaluation liquidation still has not materialized, but this is hardly surprising as Canadian Government internal bonds are still attractive at their current levels. In view of the Bank of Canada action in forcing down the level of the shorter term Dominion obligations, this section of the list is especially interesting. The corporate arbitrage rate was also firmer at 9¼%-8¼% and the Canadian free dollar strengthened further to 4⅝% discount. Stocks continued to maintain their ground and in many instances to attain new high levels. The base-metal group was especially prominent led by Consolidated Smelters, Quemont, Waite Amulet and East Sullivan. Industrial issues were mixed with Anglo-Newfoundland an outstanding performer on the proposed stock split. Western oils were mostly on the downside but Federated Petroleums moved against the general trend. Golds continued their recent moderate advance on the persistent belief that an increase in the world-price of gold will not be long deferred.

Silver, Barry & Van Raalte

A. Robert Silver, Edwin J. Barry, Robert J. Silver, all members of the New York Stock Exchange, and Benjamin Van Raalte will form Silver, Barry and Van Raalte with offices at 39 Broadway, New York City, on Nov. 1.

The Stake of the Foreign Trader in the Gold Standard

By GEORGE F. BAUER*
Vice-President, International Trade Section, New York Board of Trade

International monetary economist, tracing monetary relationships in a typical export and import transaction, maintains intermediate "substance" monies representing titles to definite amounts of gold are needed for efficient and economical coinage of goods and services among nations. Sees opportunity for International Monetary Fund to help commerce by encouraging establishment of thorough-going gold.

In 1876 a booklet was written. Its title was "Robinson Crusoe Money." It covered the fundamentals of sound money in a manner readily understood by the average person.


George F. Bauer

Reference in it was made to "substance" money and "shadow" money. "Substance" money is based on gold, but "shadow" money is of the evasive type vaguely presented today as "planned currency" and possessing no claim for holders of it to some substance of universal worth such as gold.

In international trade today we are confronted with a confusion similar to that described in 1876 in the booklet "Robinson Crusoe Money."

We are deprived of "substance" money but we are given all kinds of variations of "shadow" money.

In terms of "shadow" money, we are subjected to the illusion that our foreign trade under "super-management directives" by officials not engaged in actual transaction of commerce is at record heights.

Expressed in "substance" money, such is not the case. Twelve billion of "shadow" money dollars for exports today do not mean what we are asked to have them mean.

First we need to deduct five billion for Marshall Plan aid. Those five billion do not represent self-reliant exports but rather "give-away" at expense of U. S. taxpayer. The remaining seven billion at 50 cents purchasing power dollars come to only 3½ billion of prewar dollars. Under private enterprise we strove for five billion of exports annually. Why should we boast so much if now we actually have only 3½ billion real dollars of exports. This is austerity type of foreign trade — not abundance foreign trade.

To achieve abundance type of foreign trade with its benefits to those engaged in all the activities of its many ramifications, we need to stop the "shadow boxing" in money matters and work for the reestablishment of "substance" money in the form of the international gold standard.

Let us follow with a few sketches the various steps involved in typical export and import transactions. In this way we shall come more readily to understand why the gold standard for several centuries in the past was, now is, and in the future will be, an indispensable instrument in furthering, through individual initiative, the development of many transactions that add up to make what we call world trade.

In the United States we have large quantities of automobiles; we can make more automobiles than are required by our people. We are therefore most happy if someone in Brazil expresses a wish to buy one from us.

We are, however, a cautious people, like all people, and we want to be sure we are going to be paid for the automobile.

The automobile exporter therefore insists that the Brazil buyer supply him with a You-owe-me, not an I.O.U., to make sure the automobile will be paid for when sent to Brazil. Technically, there is the matter of a letter of credit with payment against draft with shipping documents attached. For the purpose of this illustration we shall content ourselves with the fact that the American automobile exporter is given the Brazilian's U.O.Me and that the car can now be put on a steamer and move down toward Rio.

Attitude of Brazilian Coffee Exporters

Brazil, on the other hand, has more coffee than its people require. Brazilians are therefore happy to learn of the desire of a North American to purchase a quantity of this coffee. Brazilians, too, are cautious people; they wish to be sure that they will be paid if the coffee is sent to the United States.

The Brazilian coffee exporter in turn asks for a U.O.Me from the American purchaser of the coffee. With the financial commitment made, the coffee can readily be put on a steamer in Santos and move up to New York.

We now come to the International Bank. This is a bank for this purpose which has establishments or correspondents in the United States and Brazil to take care of financing details incident to the export of the car from the United States to Brazil and to the importation of the coffee from Brazil into the United States.

The American car exporter presents the U.O.Me of the Brazil purchaser to this International Bank.

The Brazilian coffee merchant also presents the U.O.Me of the American purchaser to this International Bank.

If the car were of the same value as the coffee we would have this result.

The car would represent a debt of Brazil and the coffee a credit of Brazil. Both items having each exactly the same valuation, one —the debt, would be offset by the other—the credit.

Actually, the car was paid for by the coffee.

If both Brazil and United States had the same currency the car would be purchased and sold at retail in the same kind of money used to buy and sell the coffee at retail.

Brazil and United States are, however, separate countries, each with its own kind of money. In the United States it is the dollar, in Brazil it is the cruzeiro.

The car had to be purchased for dollars but is sold for cruzeiros. The coffee is produced by planters accustomed to cruzeiros but it has to be sold in dollars at retail in the United States.

Now the American cannot readily use cruzeiros in his country, nor can the Brazilian in the interior of his land directly use dollars.

Each is compelled to change the other's money into the currency of his land. The American if he were to receive cruzeiros for his car would have to exchange them at some definite rate into dollars. The Brazilian would also want to change the dollars if he received them for his coffee into cruzeiros in some definite relationship.

Long-Term Transactions

Foreign trade to be on a healthy basis should allow for long-term transactions and for certainty as to final payments regardless of whether they are specified in the money of the exporter or of the importer.

Today this facility of ready conversion of other currencies into our own is limited to about eight countries, some of them of smaller sizes.

In the other countries conversion of currencies can be effected only through central banks but not by individuals with individuals direct.

Here then comes the need for a standard whereby the values of different currencies can be gauged and the exchanges of one for another readily effected.

Gold has proved to be the best standard by which values of different currencies can be appraised. Gold in itself has a worth universally acknowledged.

Under a proper gold standard, the American exporter would have the privilege of selling a $1,000 car for 18,500 cruzeiros in the knowledge that whenever he desired he would obtain for each of the cruzeiro .0480363 grams of fine gold or a total of 888.671 grams.

This gold or the title to this amount of gold through possession of the cruzeiros would assure him payment at any time in the future he might designate of the original $1,000 in the exported car.

Why, because $1,000 at the U. S. rate of 1/35 of an ounce, or 888.671 grams of fine gold would be the equal in gold of the 18,500 cruzeiros.

Similarly, the Brazilian coffee firm owning $1,000 automatically would have a title to 1,000 1/35th ounces of gold. At all times whether immediately or quite some time later he could convert these 1,000 1/35th ounces or 888.671 grams of fine gold into the same quantity of cruzeiros for which he had previously sold the coffee. The 888.671 grams divided by .0480363 grams, the gold content of the cruzeiro, would figure out to 18,500 cruzeiros or the Brazilians local price for the coffee.

Gold is an intermediary substance money. The automobile represented a substance. In giving up the car, the American should receive substance comparable to the car. As he could not, in our illustration, receive the coffee immediately for the car, he should be provided with an intermediary substance such as gold. In that way there would be exchanges of substances or titles to substances all along the line. Title to the car is exchanged for title to a fixed amount of gold, and the gold for the coffee. These changes are possible in an economical manner only if the value of the car is expressed in dollars that are for all holders, titles to 888.671 grams of gold for each dollar and, if the coffee price is expressed in cruzeiros that are titles for all holders to .0480363 grams of gold per cruzeiro.

Naturally, in commerce, transactions are not limited to exchange of a car through gold for coffee. Rather does the title to gold become a title to any of the millions of products and services that enter into world commerce under stimulus of private initiative and with aid of a thorough-going gold standard.

In our daily commerce between nations, it then becomes highly vital that every currency becomes a title to a fixed amount of gold and that through this common denominator of gold, all currencies become exchangeable one for the other with absence of any need for compliance with expensive red tape, delays, cumbersome and uncertain calculations or of excessive risks.

There seems to be a fetish to twist a simple tool so essential to world trade as the gold standard in a mass of mystery and confusion so intricate that the super planners get lost in the mess themselves.

As an illustration we are enticed by such an alluring proposal as the Customs Simplification Act. Even here the determination of the values of the various currencies for customs purposes is no longer to be determined by their gold contents for which the respective governments have to make good, but rather is the International Monetary Fund to make guesses at the values for "shadow" currencies not redeemable in gold.

Point Four a Misnomer

Much is said about Point Four to encourage private investment abroad. Finally, it is a misnomer to be used in extracting taxpayers' money to spread American "know how" abroad. Private firms and individuals can do these things and even engage in long-term investments of a productive type better than any government officials can. They do, however, need assurance that their investments will be repayable a year later in about the same purchasing power money they invested. The gold standard would give that assurance. Without the gold standard Point Four is only one of these in consequential points as far as private investors are concerned.

The prime purpose of the International Monetary Fund was to maintain stability of exchange rates. This would have been a laudable endeavor, if each currency of the participating members in the Fund were put on basis of a definite gold content and the privilege of conversion into gold at the fixed rate opened to all holders of the currency. That would have been a "hard but right task."

Instead, the International Monetary Fund furthers the widest possible dissemination of "shadow" money. Naturally, the valuations put on such volatile currencies cannot be kept in fixed relations. One day the Canadian dollar, a money irredeemable in gold for all holders, is 91 cents of U. S. irredeemable money and a day afterwards it is 96 cents. Here then is the prospect of a loss on commercial transactions involving Canadian and U. S. money of about 5% in one day's time, or a loss comparable to the entire net profit on average foreign trade transactions.

Good and Bad Monetary Health

Monetary health comes through the effort of the individual country. It is either good or bad in a monetary sense. It is good if it decides itself on the gold equivalent for its money unit and sticks to its commitment; it is bad if its money unit is unattached to a substance such as gold and subject to the fluctuations of the time.

No International Monetary Fund is going to be helpful to private enterprise in world trade, if it assumes healthy exchange conditions can be furthered with spurious money systems.

The Fund has an opportunity. It can strive for establishment of a thorough-going gold standard in the United States whereby all holders of dollars automatically possess titles for each dollar to 1/35th of an ounce of gold. It can urge similar steps in Switzerland, Italy, Belgium, and France, ultimately in all countries. Its endeavors will then warrant the admiration of those foreign traders who believe the world is best served with as many products and services brought efficiently within the real buying reach of the greatest number of people throughout the globe.

*A talk by Mr. Bauer before the Foreign Trade Club of New York University, Oct. 20, 1950.

John F. Glenn to Join C. & S. Bank

ATLANTA, Ga.—John F. Glenn has been elected Assistant President and director of the Citizens and Southern National Bank with headquarters in Atlanta.


John F. Glenn

Mr. Glenn, who is now a partner of Courts & Co., will assume his new duties on Jan. 1, 1951.

The Citizens and Southern National Bank selected the 39-year old Atlantan for his high post to meet its present and future executive requirements. Mr. Glenn has been with Courts & Co. for 15 years and has been a partner since 1941.

He is past President of the Georgia Security Dealers Association and Chairman of the Publicity Department. He is a member of the Public Relations Committee of the National Security Traders Association.

He is a son of the late William F. Glenn, one of the founders of Atlanta's city railway system, and a nephew of the late Thomas K. Glenn, who was President of the Trust Company of Georgia.

A graduate of Georgia Tech, Mr. Glenn is a veteran of World War II, in which he served with the Navy.

Penny Stocks In Demand

A lively demand for so-called "penny" stocks in 1950 is reported by Tellier & Co., specialists in these low-priced shares, following the firm's offering last week of 1,198,000 common shares of Trad Cabinet Corp., makers of television cabinets.

Walter F. Tellier, head of the Tellier firm, stated that his firm had sold six other offerings of "penny" stocks during this year having an aggregate of 5,200,000 shares and a total dollar volume of $1,790,000. These offerings, he said, were made at prices ranging from 25c to 80c a share.

Proceeds realized from the sale of these securities, Mr. Tellier said, have provided over 1,000 new jobs. In addition, a number of these companies already have received substantial orders from the Government for war materials.

Included in the list of low-priced offerings made by the Tellier organization so far this year were stocks of four television companies, and two oil companies.

Villard Heads Dept. For Hirsch & Co.

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Paul R. Villard has become associated with the firm as manager of its Foreign Exchange Department.

Progress Cannot Be Achieved by Frugality

By PAUL MAZUR*
Partner, Lehman Brothers
Members, New York Stock Exchange

Prominent investment banker, contending economic Puritanism as represented by too much thrift is detrimental to peacetime economy, lays American progress to efficient mass distribution as well as mass production. Holds more spending by public means more selling by industries, and defends instalment credit, but points out war economy may require changes, but not in its basic principles.

Not long ago, I heard a friend of mine — a really outstanding merchant—give a talk. In it he analyzed the statistics of retailing of both hard and soft lines. He concluded that the present relatively unsatisfactory level of soft goods sales volume was due not to the high level of hard lines (autos, refrigerators, television, etc.), but rather to the very high level at which Americans were saving their earnings. He added that merchants of soft lines were unsuccessful in making women sufficiently discontented with their styles to convert dollars into clothing. He aptly referred to retailers as "merchants of discontent"—and spoke of the danger in our economy of using mere utility as a basis for consumer needs, desires, or demands.

Paul Mazur

The protest against this "profligate" point of view was considerable. It was said that the Puritan lessons and maxims of thrift and prudence were being prostituted.

For years I have, on various occasions, written and spoken about the American economy in terms of what I believe were its facts. Recently, I spoke of the danger of too much thrift and of the need of quickening the speed of raising the American standard of living if we are to keep our factories busy and our men and women prosperously employed producing peacetime products. Like my merchant friend, I, too, was denounced by those who are Puritan-minded in their economic thinking, those who found in my words, or rather some of my words, removed from their context, an advocacy of hedonism and a denial of the proper economic principles of our Puritan progenitors.

There is, it seems, a vociferous group of economists or commentators who stigmatize any departure from the dour economic ways of those who landed at Plymouth Rock, with the same fury with which the W.C.T.U. preaches the impiety of rum and the perfections of prohibitionism.

Do those who attack my merchant friend and myself find fault with our economics, or with the fact that we speak out in meeting? Is it our economics that are involved? Or is it that we present economic analyses which, though valid, run counter to Puritan principles?

Many foreign observers have commented upon the indelible stamp which the Puritan Fathers left upon our culture, our morals, and our manners. But they find more of this Puritanism in our ethics and rather less in our conduct. They believe that we are far more moral in our precepts than in our practice. In fact, they sometimes assign to the contradiction between our social fact and fiction the brutal word "hypocrisy."

Does that same variance between fact and fiction exist in our economic practices? And, in the analysis of that "dismal science" of economics, as it applies to the United States, are we guilty of the same charge of hypocrisy?

Basic Reasons for Our Superior Economy

It is easy to affirm the fact the American economy is somewhat of a miracle in the world of today. It is not easy to indicate the basic reasons therefor.

Natural resources and the climate of the United States have played their part. The political system under which this nation developed unquestionably has been an important factor in the growth of its economy, for it has encouraged freedom of enterprise, the elimination of an economic caste system, and the promotion of a sense of equality among its people in their search for an improving standard of living for themselves and particularly for their children.

Against this background of rich natural resources and political freedom, the shortage of labor in the U. S. during the 19th century played a compelling role. Raw materials were plentiful—production practices used them generously, even wastefully. Manpower, by contrast, was scarce—production practices husbanded manhours by any and every device possible. The pressure to save manhours expressed itself in the almost fantastic mechanization that America built within its industry. And as the volume of industry grew, the intensification of the division of labor and mechanized production methods kept pace.

A sociological and economic byproduct of these intensive methods was the increasing productivity of manhours year by year, decade by decade. Moreover, the shortage of labor buttressed the conversion of this increased productivity into the benefits of improved real wages, year by year, decade by decade. Fewer hours of labor were required to earn the bare essentials of food, clothing, and shelter; even with a decreasing number of hours in the work week, the mass of American men and women were able to buy more and more of the goods and services they desired. Decade by decade, the American standard of living improved.

Probably the best method of determining "real" wages is to measure and compare the length of time the average worker must labor to provide his family with its needs and some of its desires—its necessities and luxuries. By such a measurement, the average American has truly performed a production miracle and benefits by the productiveness of that same miracle. Whether the product be a loaf of plain bread or a rich cake, the time an American must work for that product is low indeed. For the average worker outside of America, the radio, of course, is a difficult prize to win by hours of labor, television more difficult, if at all possible, and the automobile practically impossible.

Decade by decade, the list of American conversions of yesterday's luxuries into today's necessities has grown longer and longer. Nor has this increasing bill of personal material rights required more hours. In fact, the companion developments to increasing desires has been more leisure time in which both to develop those new desires and also to continue the desired products.

For 50 years, the trend of hours of work has been a declining one, as wage rates and working conditions have improved. From a seven-day week of 12 hours a day in some industries 50 years ago, we now have almost a national working schedule for all industries of eight hours a day for five days a week. With that five-day week—and its consequence of a two-day week-end—leisure time has increased greatly.

Time for family association is now so much greater than formerly, that the whole residential pattern of the United States has undergone a substantial revolution. Today, suburban living is the rule in the medium and larger cities. Perfectly good homes in the city area are "wasted" and families take up living in areas five to thirty miles from the cities' centers. The new living areas demand new facilities for streets, sewers, and transportation; and new shopping areas are growing up with billions of investment doing damage to the utility value of the greater number of billions of investment in the centralized shopping areas of the past era of the "six-day work week."

Does there not appear to be some non-Puritan contradiction of the concept of the "godliness of labor" in an economy that "labors" so hard to reduce the time its members must devote to work? Perhaps there is profligacy lurking in the shortening of the work week. If so, there is also a promise of prosperity in the consequent increase of leisure time. Leisure time is the time for consumption. The new habits of life and living that are inherent in the lengthening of leisure time reflect themselves in enormous increases of needs and desires. The expanded demands that are coming with the five-day week are proving a boon to industry and providing another element of great strength in the development of our domestic markets.

It is this development of an unprecedented domestic market for industry, provided by the steadily improving standard of living for its people, that is believed by some observers to be the outstanding single characteristic of our American economy. For industry, it has made possible the astonishing development of mass production with its high degree of division of labor and its superlative degree of mechanization. To the American people it has brought goods that have demanded for their purchase less and less of their laboring time, and, therefore, an ability to buy more and more goods with the actual time they give to labor.

These results, however, were not the product of industrial lethargy. Production and distribution did not stand by and wait for this huge domestic market to develop spontaneously. They used every "trick" in the trade—and developed new "tricks" for a new trade of intensive sales promotion. They used every instrument in the band; no muted tunes were played by these sellers of more and more products, but brass cymbals clanged and calliopes screamed and drums banged. There was nothing sedate about the method, and nothing even remotely like the precepts of Puritanism.

Efficient Mass Distribution

Industry and commerce used all the devices available to the newly developed technique of mass distribution—the handmaiden, if not the mistress, of mass production. Today's list includes $5 billion for advertising in magazines, press and radio—(and the most promising giant of them all, television, is still in its diapers) — to teach discontent with the old and promote interest in the new. Style and design changes have created obsolescence as a factor for the renewal markets. It is not enough to own an automobile that will run—for millions of drivers, the model must be the newest. Television is young as a consumer's product. Five years ago, there were practically no sets in American homes; today, there are five million; and five years hence, there may be over 20 million. Already the shadow of obsolescence is being cast upon sets as yet unborn. Color television may reach maturity within the next 10 years, and its promise and performance will demand the replacement of millions of sets, still useful, by new devices of a more spectacular nature. There is nothing Puritan about this method of recreating a domestic market. There is nothing Puritain about making consumers discontented with the products they have already purchased.

In a sociological sense, it certainly is not thrifty and, in a sense, it probably is wasteful to encourage the abandonment of products, still very useful, because of the availability of a new, prettier, better product, that, in turn, is to be replaced by a still newer, prettier, better product, that, in turn, etc.

And then there is industry's most non-Puritan tool of all—the use of fractional selling or installment buying as a method of persuading and making it easier for the mass of American consumers to buy articles which in other nations are reserved for the class-consumers—and a small class at that. Consumer credit is the device by which people meet today's desires out of tomorrow's income. This device is a most compelling factor in the development of our mass markets, particularly of big ticket items like homes, cars, refrigerators, and television. There are 35 million passenger cars registered in the United States, 77% of all the cars in the world. The price of $1,500 to $2,000 would have been prohibitive for the mass of their owners—but the fractionalization of this price into $50 or so per month has performed a miracle of creating mass markets for class products.

Through this device has come the miracle of mass production of our automotive industry (which, if needs be, may become our armament industry as well). The price of the product is but a fraction of what it would be if limited to cash sales. An automobile industry built on the utility of 11 to 15 years of mechanical life, and on sales only to the cash buyer with money he is willing to draw out of the bank, would probably satisfy the principles of Puritan thrift, but it might not satisfy the millions of unemployed who could find no work in a shrunken motor industry and its giant corollaries of oil, tires, steel, rubber, textiles, road building, etc.

More Spending Means Greater Production

At the Harvard School of Business Administration last June, a great American was properly honored when the Lincoln Filene Chair of Retailing was established. At that time, Sumner Slichter, a truly fine professor of American economics, was one of the speakers. In his talk, Professor Slichter referred to the decreasing velocity of money and the resulting danger to prosperity, unless the trend was reversed by business men. Now the velocity of money represents the speed with which you and I dispose of the money we earn. A slow velocity means sticky money and minimum expenditures—and, therefore, high savings—a good Puritan ideal. Rapid velocity means slippery money, maximum expenditures, and lesser savings—a combination almost akin to the old adage about the fool and his money being soon parted. Yet a good professor of economics told business men theirs was the task of increasing the velocity of money if an American peace-time economy was to escape bogging down in recession and unemployment. Sumner Slichter's economics are sound: for spending by consumers is the exact equivalent of selling by industries—and without greater and greater sales, industry cannot remain prosperous. And the Geiger counter of selling is the rate of spending, or the velocity of money. When Puritanism changes from fiction to fact and actually succeeds in dampening spending rates, it insures a growing rate of unemployment.

The serious and literal introduction of the copybook maxims of excessive thrift and prudence **might** be socially desirable to some, but it would deprive millions of Americans of the pleasures of driving and suburban living and the benefits of full employment at the highest real wages in the history of any nation. The effects of Puritanism upon some standards of morality are debatable—but the effects of that economic Puritanism upon prosperity and the American standard of living are not debatable—they would be disastrous.

It will be obvious to you that I have been talking of the sorry effects of laying the dead hand of oversaving **by American consumers as a whole** upon our economy. It would ill befit me as a banker to preach profligacy on the part **of the individual** who is already on his uppers. It is no part of my desire to advocate habits of spending which would multiply the ranks of wards of the state.

The benefits to Americans of intensive and even expensive methods of selling have been extraordinary in terms of the lower costs and fewer hours of labor required to earn not only the necessities but also the luxuries of living. Economic Puritanism is a fiction, and has been a fiction in our economy for over a hundred years. Its conversion into fact might satisfy the dour and the dignified—but it would do unlimited damage to the great mass of American men and women.

For the sake of our standard of living, which must quicken its pace of improvement if we are to maintain a prosperous economy on a peacetime basis, let us be realistic about fact and fiction, and be on guard against economic Puritanism for the danger it truly represents.

War Economy Means Change

All of the factors, premises, reasoning, and conclusions within this paper have been based upon an analysis of the American economy in peacetime—or rather an economy in which the major stimuli to economic action are derived from peacetime products.

If we are to find ourselves again at war or in a period of "no peace" in which expenditures for war products and services are greatly to increase, then we must expect great changes in some phases of our activities — but not in basic principles.

If actual war preparation should demand steel and fibers and food and men, then civilians must deny themselves some of the goods and services to which they are accustomed. Standards of living must decline. Spartan living must be encouraged. Utility must replace obsolescence as the prime factor in determining the time to purchase a new car, a new radio, television, or home.

But that change in living habits does not occur because Puritanism in a war economy becomes the fact it never was during

*An address by Mr. Mazur before the Boston Conference on Distribution, Boston, Mass., Oct. 16, 1950.

peacetime. The economy of war has nothing Puritan about it. It is wasteful, profligate, non-productive. It is concerned with producing goods not for use but for destruction. Because of the non-Puritan, wasteful, profligate demands of a war economy, not even an economy as rich as ours can supply all the guns we need and all the butter we desire. In days of war or war preparation, the wastes of war have precedence over the wants of peace. Sociologically, it is an unfortunate priority that is demanded for the very safety of the nation. But it may well be an essential priority if we are to have the chance and privilege of again returning some day to our American way of free life and non-Puritan, prosperous existence.

Emmett Corrigan

Emmett Corrigan, Chairman of the board of directors of Albert Frank-Guenther Law, Inc., advertising agency, died suddenly Saturday, Oct. 21, at the home of one of his business associates at Southampton, Long Island. He resided at 5 Meadow Woods Road, Great Neck.

Emmett Corrigan

Mr. Corrigan was born in Saranac, N. Y. on Aug. 4, 1891, and was a graduate of Plattsburgh High School and Plattsburgh State Normal School. He served as principal of Altona Union School from 1912 to 1913.

He had been associated with Albert Frank-Guenther Law, Inc. and its predecessor companies continuously since 1915. He was elected Chairman of the board of directors on Nov. 6, 1942, which position he held until his death. Mr. Corrigan had specialized in advertising for banks, investment houses, insurance companies, and other organizations which sell services and ideas. His experience covered advertising in newspapers, magazines, radio and outdoor, direct mail, point of sale and public relations.

In World War I, he served with the 339th Infantry, American North Russian Expeditionary Force at Murmansk and later in Archangel. In World War II, he was a member of the New York State War Finance Committee.

Mr. Corrigan formerly was a member of the executive committee of the Committee to Defend America by Aiding the Allies. He served for many years on the fund raising committee for the Beekman-Downtown Hospital. His clubs were the Bankers, New York; Metropolitan, New York; and Manhasset Bay Yacht, Port Washington, L. I.

W. Ross Campbell Co.

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—W. Ross Campbell Co. is engaging in a securities business from offices at 712 South Spring Street. Officers are R. L. McCourt, President; Robert L. McCourt, Jr. and Clem S. Glass, Vice-Presidents; and John R. Glass, Secretary-Treasurer.

Levy in New Orleans

(Special to The Financial Chronicle)

NEW ORLEANS, La.—Richard S. Levy is engaging in the securities business from offices at 118 Sherwood Forrest Drive. He was formerly in the investment business in Ridgefield Park, N. J.

Foreign Economic Picture As It Affects U. S. Exports

By A. N. GENTES*

Vice-President, Guaranty Trust Co. of New York

Mr. Gentes, in picturing economic and financial conditions abroad, finds considerable improvement. Says this, as well as Korean crisis, will change pattern of our foreign trade. Contends, because of restricted exports and cutbacks in production for domestic consumption, a sellers market is again possible and a general elimination of both exchange restrictions and import controls is not likely in foreseeable future.

The gradual but progressive improvement in the economy of the free world apparent in the past year or two, and due in good part to aid extended by the United States through ECA, now is menaced by the shocks and dislocations resulting from economic mobilization for defense brought about by the Communistic disturbances in Korea.

A. N. Gentes

The quirks of the Russian mind defy interpretation, but unquestionably the Korean war was aimed by the Kremlin to retard the rehabilitation and improvement in most countries of the world outside of Russia and those countries dominated by Russia. Practically all of the countries in Europe participating in the Marshall Plan (ECA) have made substantial industrial progress since the end of World War II and, in fact, industrial production in some of the countries is well above the prewar figure.

While it is not expected that the European countries participating in the Marshall Plan will be on a self-sustaining basis by 1952, when the present plan ends, marked strides have been made in that direction. The signing of the European Payments Union constitution on Sept. 19 last by the Marshall Plan countries is one of the encouraging developments in the European area. While all of the problems entailed in the plan have not been adjusted at this time, it can play an important part in the readjustment and improvement of European economy. The plan is quite complicated, but, in effect, the goal is to encourage multi-lateral trade operations by making it possible for a participating country to settle its accounts periodically with other participating countries as a group rather than on a country-to-country or bi-lateral basis. The plan also contemplates the elimination of import restrictions between participating countries and is a step towards the free convertibility of European currencies.

The integration of Western Europe and the overall improvement in the area does not fit in with the Russian plan of world domination, and the inability of Russia, with an economy based on slave labor, to compete in international trade with free nations, makes it imperative that they keep the world in a constant state of turmoil.

Latin American Conditions Improved

In the Latin American area, higher prices for coffee, cocoa, wool, metals and other raw materials have resulted in a substantially increased inflow of dollar exchange. In Brazil and Colombia, particularly, liquidation of the backlog of commercial debt has been proceeding at an accelerated pace and the time lag on dollar draft payments has decreased. Sales from the Latin American area to the United States now exceed its purchases from us, and under normal conditions that situation should result in an easing of exchange and import restrictions and a freer flow of goods from the United States to the Latin American countries. The future exchange situation in the area and the amount of dollar exchange available depend to a great extent on commodity prices and on our ability to continue to absorb a large volume of Latin American products at high prices.

The Korean war and the disturbances that many of us expect will be started and nurtured by Russia in Germany, Iran, Southeast Asia, the Philippines, or in other danger spots, may or may not lead to World War III, but they are certain to result in new and expanded controls over industry in the United States. We are approaching a full war economy, and while our increased purchases abroad are bringing about a relaxation of import and exchange controls in some countries, we must look for a tightening of export controls, inventory controls, allocation of scarce material and limitations on production within our own country. Whether or not our export trade will be seriously affected by these controls, will depend to a great extent on the duration of the present emergency and the degree of intelligence displayed in the application of the controls.

Pattern of Foreign Trade Changing

As a result of conditions brought about by our entry into the Korean conflict and by our realization with other free nations of the menace of Russian aggression and domination, the pattern or our foreign trade already is changing, particularly on the import side. Sharp gains in imports have been registered as a result of the acceleration of the United States defense program. Our import volume began to increase in May of the present year, and the increase has continued each month since then. For the first six months of 1950, our total imports amounted to about \$3,800,000,000, as compared with about \$3,400,000,000 for the comparable period in 1949, and it is evident that our imports for the final six months of the year will substantially exceed imports for the first six months. Normally, the freer supply of dollar exchange created by imports would have a tendency to increase the volume of our exports, but under existing conditions, the full impact of the additional dollars is likely to be reflected in increased exports, only for a relatively short period, if the greater part of American industry is utilized for wartime production and strict controls are imposed. Furthermore, a change is possible in the type of our exports, from non-essential and consumer goods, to essentials and material used in the military preparedness program in Europe and elsewhere abroad.

During the period of World War II, the countries of the Latin American area accumulated reserves of between four and five billion dollars in gold and foreign exchange. This amount, in effect, was forced savings. The reserves were created to a great extent by the United States through purchases of raw materials in the Latin American area, but because of the demands of war within our own country, we were unable to supply its needs for manufactured goods. As a consequence, the funds accumulated to the credit of the Latin American countries, and it was not until after the war, when we returned to peacetime production, that we could fill their requirements. Some of the Latin American countries fear that we again may be unable to fill their requirements for goods sorely needed in their economies, and they are endeavoring to purchase here on a long-time basis in anticipation of dollar funds that may accrued to them at a later date.

In the Argentine, the Central Bank is prepared to consider the granting of prior exchange permits for machinery and equipment, if shippers are willing to extend credit for not less than five years, and shippers of raw materials and other goods, for not less than three years. Payments in annual instalments will begin one year after customs clearance. Brazil is contemplating the stock piling of essential material on the basis of payment within one year, with a guarantee of a fixed rate of exchange, and in Colombia a regulation recently was issued permitting the issuance of import licenses for a long list of critical items, provided payment is accepted in from six months to five years after arrival of the merchandise.

For a period after World War II, when we were in a sellers' market, many of our exporters insisted on tightening sales terms and we were roundly criticized by Latin American buyers for so doing. Our selling terms have been liberalized gradually over the past several years, due to certain factors, including competition both at home and from abroad, but with the application of stricter controls in the United States and an increase in domestic demand, coupled with a cut-back in production for domestic consumption, a sellers' market is again possible. Are we then going to insist on letter-of-credit financing on export sales, and what will be our attitude regarding the plans of some of the Latin American countries to grant import licenses to buyers, if sellers will agree to the extension of credit terms of from six months to over five years? These are questions that cannot be answered immediately, but it can be said that during the whole period of World War II many exporters extended sight draft to buyers in selected countries with good results. The purchase of material by foreign countries on a long-time credit basis is nothing more than a mortgage on future dollar income which may or may not materialize, and in the face of backlogs of commercial debt still unliquidated in several countries in the Latin American area, some doubt arises as to the wisdom of future sales on the basis of an extension of long-time credit.

Future of Foreign Exchange and Import Controls

Foreign exchange restrictions and import controls in the various countries of the world probably are discussed in export circles more than any other one phase of export operations. Controls of one kind or another originated about 1916 and were brought by conditions arising from the First World War. Exchange restrictions or import controls or both now existing some 80-odd countries, and in some countries so many changes and complications have been injected that existing regulations and decrees almost defy interpretation. In the face of the chaotic international conditions that have been with us for many years, restrictions of some kind undoubtedly were necessary to prevent flight of capital and to provide for an orderly allotment of the amount of exchange available, but at times one questions the sincerity of the purpose back of many of the controls. If controls are not fairly and impartially administered, they could lead and, in fact, do lead to certain abuses within the particular country involved. Many of us engaged in export operations have heard of instances where importers abroad for one reason or another, have obtained exchange licenses or import permits that normally would not be granted. Furthermore, one again questions the necessity for merchandise quotas or the complete prohibition of importation of certain types of merchandise and their effectiveness once they are imposed. Under existing conditions it is not likely that any trading nation of importance in the international field could maintain its position in world markets very long without restrictions unless it has a substantial gold and dollar exchange reserve or a favorable yearly balance of payments position with hard currency countries. Under any circumstances, the general elimination of exchange restrictions to a great extent waits on the free convertibility of world currencies. Some countries will reach the goal earlier than others, as a result of economic stability. No country can hope to eliminate exchange restrictions if other nations of the world and the nationals of the country have no confidence in the currency, for to do so before putting the house in order would immediately result in flight of capital and other disruptions that would wreck the country's economy. We must not overlook the fact that in so far as our export business is concerned, the elimination of exchange restrictions is not the whole answer, so long as import controls are imposed, for both affect our export volume. While some countries have relaxed exchange restrictions, the general elimination of both exchange restrictions and import controls is not likely in the foreseeable future.

The export manager of today is a specialist, and to do an efficient job he must have a thorough knowledge of world conditions. He must know where to sell and on what terms. The automotive and parts industry has an extremely important place in the successful prosecution of the war, and your individual and collective efforts to keep the wheels rolling are a potent factor in the present battle between the two conflicting world ideologies.

*An address by Mr. Gentes before the Overseas Automotive Club, Inc., New York City, Oct. 4, 1950.

Miss. Valley Group of IBA Holds Meeting

ST. LOUIS, Mo.—The Mississippi Valley Group of the Investment Bankers Association is holding its annual meeting today for the election of officers.

The Group also announces that it will hold its annual Christmas party on Dec. 21 at the new penthouse lounge of the Park Plaza Hotel, St. Louis.

Again as for several years, the Group announces that there will be a St. Louis Room at the IBA Convention in Hollywood Beach. Kelton White, G. H. Walker & Co., and Harry Theis, Albert Theis & Sons, Inc., head the committee and act as co-hosts.

The Treasury-Federal Reserve Rift

By AUBREY G. LANSTON*
President, Aubrey G. Lanston & Co., Inc.

Mr. Lanston presents background of recent Federal Reserve policies, together with implications of the Federal Reserve-Treasury controversy regarding debt management and interest rates. Says dispute, besides causing institutions to lose confidence in stability of interest rates, has increased availability of credit through larger holdings by banks of one-year government securities. Ventures opinion bank reserve requirements will be increased and Treasury short-term rates will go to 1½%.

Almost two months have elapsed since the Federal Reserve amazed the banking and investment communities by announcing an increase in the rediscount rate of the New York Federal Reserve Bank to 1¾%. This was accompanied by a statement that the Board of Governors and the Open Market Committee were "prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the government securities market," and the Board was "prepared to request the Congress for additional authority should that prove necessary." As you know the Treasury at the same time announced that it would refund $13 billion of maturing obligations in securities bearing a coupon rate of only 1¼%.

Aubrey G. Lanston

The Treasury was protected from an unbearable drain by the open-market operations of the Federal Reserve. In these operations the Federal made large-scale purchases of maturing securities, and it sold other obligations in comparable volume at yields more favorable than those offered by the Treasury. This unprecedented move caught everyone more or less unprepared, and the gradually increasing rates at which outstanding securities were offered by the Federal caused many holders of the maturing securities to reinvest in bills and the shortest-term notes. Later it seemed that the caution evidenced by holders of Treasury securities together perhaps with reactions in certain Washington quarters suggested to the Federal that they exercise some greater caution. In any event Victory 2½s have been stabilized for many weeks at 100 26/32, and until last Monday the short-term rate was represented by a 1.37%-1.35% quotation on the recently-issued 1¼% notes.

During this period of temporary stabilization, Regulation X was issued with restrictions that have brought dismay and protest from most sections of the building industry. Regulation W was first issued with only mild restrictions on consumer credit, but has since been tightened to the point that protests are growing from many parts of the country. Thus the Federal Reserve has moved into high gear and has applied these specific controls with the same determination that characterized their earlier decision with respect to interest rates.

One of the market's first reactions to this strenuous application of specific controls was the belief that they pointed in the direction of less vigorous action in connection with the Treasury security market. This did not last long because on Tuesday last the Federal Reserve began to increase the rate at which it would acquire short-term Treasury securities. The rate was lifted by an 0.02% on Tuesday, by an 0.01% on Wednesday, and by an 0.02% yesterday. An increasing volume of rumor accompanied these moves, most of which was to the effect that an increase in bank reserve requirements would be announced at any moment. In other words events this week have given renewed emphasis to the Board's statement last August that the System was prepared to use all the means at their command in their fight against inflation.

These recent increases in short-term interest rates and the strong rumors of the imminence of an increase in reserve requirements have puzzled many people, because it is generally believed that the full effect of selective controls has not yet been felt and many signs point to the likelihood of recessions in various lines of business over the next few months. We believe that the Board recognizes this just as clearly if not more so than the rest of us, and we think that the answer may be somewhat as follows. The full requirements of our new foreign policy and of our determination to forestall Russian world domination will not be developed until after election, and, when they are, it will be clearly evident that the per-annum cost of an armed peace will be much larger than the figures we are now using. This cost may be crystallized in the President's January budget message, which is only two months away. Some clue to the total may be found from a study of Treasury expenditures through the remainder of the present fiscal year. Estimates which we have made indicate that the Treasury's cash position will exercise some deflationary impact on the volume of money outstanding from mid-December through the end of March. These estimates included a gradual increase in defense expenditures to a $30 billion per annum rate at the end of next June. This figure is, however, a transitional one under a climbing total, and if we are to have a larger program the annual rate thereafter would be greater than $30 billion. Yet if we add $30 billion to the $24 billion cost of nondefense items, we would have a total annual rate for Federal expenditures of $54 billion. This is without any allowance for an enlarged program. It, therefore, would seem reasonable to assume that a moderately increased defense program would cause the January estimate for expenditures in the fiscal year 1952 to be in the neighborhood of $60 billion or $70 billion.

The psychological impact of such a budget projection would be sharply inflationary. It seems unlikely that we will achieve a pay-as-you-go result from increased taxation against such a spending total. If this conjecture is true, the anticipated decrease in the inflation virus and the anticipated recession in some lines of business could be quite short-lived. Against this conjectural background the Federal Reserve may desire to knock inflation down to the lowest possible point even though this may cause a temporary recession late this year. Further, only by truly using all the powers at its command would the Federal draw clearly the issue at stake with the Treasury, namely, shall the Federal Reserve or the Treasury dominate in the indivisible fields of Treasury debt management and credit policy?

*An address by Mr. Lanston before the Twentieth New England Bank Management Conference, Boston, Mass., Oct. 20, 1950.

Results of Federal Reserve-Treasury Controversy

So far we have painted only the general background, and before attempting to assess the future it might be well to spend a little time on the results of Treasury and Federal Reserve disputes and policies for the year to date. For this purpose it is convenient to select three periods. The first six months of this year will be the first one. The other two represent the eight weeks just prior to the Federal Reserve's declaration of independence and the eight weeks that have followed.

During the first six months of 1950 the Federal Reserve was consistently urging upon the Treasury a debt management policy which involved two things, namely, (1) gradual increases in short-term interest rates and (2) the issuance of securities longer than one year.

Generally speaking, the Federal seemed to favor securities which would have a term and interest rate that would not require par support for them or for outstanding securities. The Treasury went along with the Board to some degree but not fast enough or far enough to satisfy the latter. At the same time the Board took the point of view that a substantial demand existed for 2½% bonds and that this demand was sufficient to justify an offering by the Treasury of such securities. The Treasury did not believe that any really substantial demand existed, and the Federal began to sell restricted 2½s in volume at decreasing prices and increasing yields, with two purposes in mind. One was to absorb any existing excess of nonbank investable funds, and the second was to reduce bank deposits thereby. The Federal was successful in reducing the price level of restricted bonds, and it absorbed a substantial amount of the investable funds that existed. The bulk of its sales, however, were made possible only by its purchase of eligible securities.

Changes in holdings by investor classes during this six-month period are now available, and the weekly figures of the Federal Reserve show that the following took place:

The Federal Reserve sold $1.3 billion of restricted bonds and bought about $800 million of bank-eligible securities. Thus the total holdings of the System decreased by about $500 million. At the same time money in circulation declined by more than $400 million. The net change in the System's holdings, therefore, was hardly more than an offset to the decline in circulation. The interesting phase of these operations is that the decline in circulation did not bring about a decline in the Federal Reserve's short-term holdings, but was translated, by open-market activity, into a greater decline in its holdings of long-term bonds.

To continue with the figures, commercial banks bought small amounts of restricted bonds and sold over $900 million of bank eligibles.

Insurance companies and mutual savings banks bought around $600 million of restricted bonds and sold around $900 million of bank eligibles. The principal nonbank sources of credit were net sellers because of their commitments in private credits, particularly mortgages, and consequently these institutions would not have been buyers of any new long-term issues offered by the Treasury except as the funds were provided indirectly by bank credit.

All other holders of Treasury securities include primarily business corporations, State and municipal funds, and pension funds. This catch-all group of "all others" bought about $700 million of restricted bonds, and in addition they bought $1.2 billion of bank-eligible securities.

Thus it was this group rather than private credit institutions who were the more interested in acquiring Treasury security investments. It is only in this area of Treasury security investment that the Federal Reserve's open-market activity had any real effect. We might add incidentally that during this same six-month period the Treasury sold about $900 million of non-marketable Series D notes, most of which were acquired by these same buyers.

Finally, it might be pointed out that, although the net decline in the System's holdings of Governments was not much greater than the decline in circulation for the period, in June bank credit was expanding rather rapidly.

Our second period is the eight weeks just prior to the Federal Reserve's declaration of independence. The period begins on June 22, just before the Korean incident, and at about the time the books closed on the Treasury's July refunding. This eight-week period was marked by large-scale scare buying on the part of consumers and businesses that immediately followed our acceptance of the Korean challenge. Controls of all sorts were being proposed, and these were partly responsible for the scare buying that went on. People were trying to beat the gun. Very important is the fact that investors generally believed that the Korean incident marked the end of the feud between the Treasury and the Federal with respect to short-term rates. The market believed that 1¼% would be as high as the short-term rate would go, some believed that it might actually be reduced, and everyone wondered how long it would be before the Federal ran out of 2½% bonds. The statistics of Federal Reserve credit in this period are interesting.

Federal Reserve holdings of Treasury securities increased by about $700 million net. On the other hand gold stock declined by close to $300 million. Other changes decreased by approximately $200 million, and the result was that the reserve balances of member banks increased by hardly more than $100 million. In other words, although the Federal's holdings of Government securities increased by $700 million, reserve balances increased by only $100 million, and in spite of all the scare buying and the tremendously inflationary bias of this eight-week period increases in the required reserves of member banks were negligible. Most of the increased reserve credit was carried as excess reserves, but their total was no larger than the average during the second quarter of 1949, when everyone was worried about a deepening recession. One cannot say that the Federal Reserve's operations had any important inflationary impact during this period. At the same time no consequential deflationary results were produced.

Disruption of Confidence in Interest Rate Stability

The last of our three periods begins Aug. 17, the day before the Federal Reserve's declaration of independence. This announcement, together with the Federal's handling of the market for Treasury securities, completely disrupted any confidence that investment institutions had acquired as to the stability of interest rates. Confidence gave way to confusion among investors and to precautionary borrowing by businesses. Nevertheless, bankers generally were willing to bet, so to speak, that the Treasury would emerge victorious, and they viewed the increase in rates as temporary and were delighted at the opportunity to extend commercial loans at higher rates. The real distinction between the periods just before Aug. 17 and afterwards is the marked contrast in the state of mind of investors, lenders, and borrowers. All of this is reflected in the statistics of Federal Reserve credit.

The Federal Reserve bought on balance $1.2 billion of Treasury securities. About $500 million of the credit thus extended was offset by a decline in gold stock. All the other factors decreased by about $200 million. But as a consequence of uncertainty, confusion, and the other considerations that I have mentioned, member bank reserve balances increased by about $500 million, whereas the increase in member bank reserve requirements was $250 million. Banks were taking the precaution to increase their excess reserves even to the extent of giving up earnings assets to do so, and excess reserves as of Oct. 11 were close to $1 billion.

This change in state of mind through the successive periods is attested to also by the record of Federal Reserve sales and purchases of bonds with a term longer than five years. During the first six months the Federal sold $1.3 billion of such securities. In the eight weeks ending Aug. 16 they sold almost $1 billion. In other words, when the price was around 101 and investors had an increasing confidence in the stability of the rate structure they bought 75% as many bonds as they had acquired in the first six months of the year. In that period following Aug. 16 and the Board's new credit policies, investors continued to buy for three weeks. Total purchases were less than $200 million. In the subsequent five weeks through Oct. 11, investors sold almost $400 million back to the Federal. The Federal's program of selling 2½% bonds seems to have been carried too far. Investors had underestimated their mortgage and other commitments, and the Federal did the same. Therefore, the last eight weeks show net purchases of $200 million of longer bonds.

We have now covered the background of the year to date. It seems quite clear to us that the statistical and psychological repercussions of the Federal Reserve's credit policies announced on Aug. 18 have been inflationary—and nothing else. It seems also that the Federal is inclined to give inadequate weight to the psychology of investors, lenders, and borrowers. As a consequence moves designed to be deflationary have had an opposite result—at least temporarily. They also seem destined to have an inflationary result over the longer run for as long as an interest rate pattern has to be supported. Whether the interest rate pattern is supported at 1¼% to 2½% or 1½% to 2½% is not of great importance.

Use of Higher Short-Term Rates To Combat Inflation

A great deal of discussion has taken place over the last two months about the desirability and the effectiveness of a higher short-term interest rate in combating price inflation, but it seems to us that the state of mind of the public and of investors in government securities is more important than the interest rate. Certainly the history of the two eight-week periods just prior to and just after the Federal Reserve's announcement indicates this. In our view real credit restraint can originate in interest rates only when the area of movement can be reasonably wide with no particular foreseeable roof and when a real penalty is imposed on the borrower. Even the latter, however, is subject to considerable question. The history of the late 1920s attests to this. Call

money was 25%, and high-grade short-term credits were available at 6%. Admittedly, however, a vast difference exists between that earlier period and the present, primarily because of the large Treasury and other bond holdings of institutional investors and banks. The Federal Reserve's hope that a minor increase in interest rates will have some marginal effect probably rests on the fact that these holdings were largely acquired at higher prices and lower yields. The loss entailed from sales of securities at lower prices presumably will deter sales made for the purpose of extending credit. We see little evidence to date that this has been or is likely to be the fact. Credit restraint will take place only for other reasons, namely, voluntary action by lenders, high risk-capital ratios, and the like. The minor increases that have taken place to date in borrowing costs certainly do not deter borrowers. The prospect of slightly higher rates has encouraged an increase in the loan demand.

The Treasury-Federal Reserve dispute has increased the availability of credit, because commercial bank holdings of one-year securities or less have been increased thereby. This increased availability through enlarged short-term holdings is more important than the slight increase in the interest rate. Credit restraint through an increase in short-term rates is bound to be more or less completely ineffectual as long as we have outstanding a substantial volume of nonmarketable debt that may be redeemed by the holder on demand. The existence of such a large demand liability requires that the Federal support the prices of marketable securities at some point that will insure the retention of nonmarketable investments. I am continuously surprised to see so many people urging the Treasury to increase its reliance on these nonmarketable instruments. The basic thought involved by advocates of this debt management policy is that the support problem concerning marketable securities can be reduced by the issuance of nonmarketables. I have yet to hear, however, of what would happen if financial institutions and others wished to resort to redemptions instead of sales. It is perfectly clear that only one of two things could happen. One is that the redemption privilege would be honored and we would be blown into a monetary inflation far more quickly through redemptions than we would through sales. The other is that the Treasury in such an emergency might renege on the redemption provision, on the grounds that the national interest would not permit it to do otherwise. Such a renege might not be an obvious and admitted fact. The most likely course of events would be that large holders would be told in strong terms that redemptions of their holdings would not be in the national interest.

This sort of program is already in effect in marketable securities. Many investors have found that they can offer securities that are being pegged, but they can only sell a portion or none. The Federal Reserve's decision in these matters probably has to be but is rather whimsical. Only the other day the treasurer of a large corporation remarked that he found he had a new type of government security that he had not known existed. He described it is "a nonmarketable marketable short-term note." He could offer it but he couldn't sell it, and dealers generally were not permitted to offer his notes below the price at which the Federal declined to make the purchase.

Tragedy of the Rift

Now, the tragedy of the rift between the Treasury and the Federal is that the Federal is attempting to prevent further attrition in the purchasing power of the dollar and of course has to be interested in avoiding any undue disturbance to the confidence of holders of Treasury securities through price instability. The Treasury is interested in these same things, but approaches the problem from the opposite direction. There is much to be said on both sides. Presumably the issue will be aired shortly in Congress with both sides looking toward an official answer to the question of whether the Federal Reserve or the Treasury shall dominate in the indivisible fields of Treasury debt management and credit policy. Unfortunately, no such decision will solve the problem. It can be solved only by the exercise of a very high degree of technical skill in both debt management and open-market operations—a greater skill, I might add, than has yet been demonstrated on some occasions and certainly one that cannot be exercised if the two parties are at loggerheads and the main issue is one of domination.

Let us come back to the Board's statement that it will exercise all of the means at its command to combat an inflationary spiral. It has applied real estate and consumer credit controls stringently. It again has begun to increase the yields on short-term securities. What definition can we give at this time to "all the means at their command"? They can increase reserve requirements to the present legal limit. Such an announcement is believed to be imminent. How far they can go in increasing short-term rates depends in part on the pressures that these increases create on the price of Victory bonds. The latter have been supported at 100 26/32. For all practical purposes the low support point seems to be 100. Whether they go to the limit no one knows. If they do go to the limit, the short-term rate can be increased more than would otherwise be the case. In any event it probably cannot materially exceed 1½%. Does the attitude of the Board indicate that they will go the full limit in the Treasury security markets? No one but the Board can answer that, but my guess is that they will.

We now come to a conjectural look at the future. Let us assume for the moment that the Board does go to the full limit in its open market activities, namely, 100 for 2½s, 1½% or thereabouts for short-term rates, and reserve requirements at the legal maximum. What next? The first thing is probably a Congressional airing of the whole matter. Congress may or may not take a decisive action in the dispute as such. The Board also has said, however, that it will ask for additional authority if this is necessary, and our guess is that the Board will do this. The additional authority is likely to include a strong and persuasive request for some kind of a special reserve. This special reserve presumably would take the form of a requirement that the banks hold a specified amount of short-term Treasury securities in relation to their deposits, over and above their cash requirements. As we face this prospect, many bank investors may have to revise their ideas as to the makeup of their portfolios. Some who think they would like to extend maturities may deem it unwise while this whole matter is unsettled. Some others may find that instead of extending maturities they perhaps had better make some precautionary sales of longer-term securities in order to build their holdings of short-term securities.

Beyond that we face the possibility of a $60 billion to $70 billion total projected expenditure for the fiscal year 1952 with high taxes that could jump the corporate tax rate to 50% or even 60%. Thus as far as bank-eligible taxable securities go, the prospect is for a flatter yield curve before taxes and a much flatter one after taxes, reduced incentives to extend maturities, and some compulsion to shorten up.

In the market for restricted bonds the prospect is for continued pressure until insurance companies, savings banks, and the like have caught up with their forward commitments in mortgages and other private outlets. Two, three, or four months from now the picture may be reversed. We may have a situation in which the restricted market will be just as isolated from the bank-eligible market as it has been for the greater portion of this year. In this case, however, we could have buoyancy in the restricted 2½s and pressure on intermediate and longer-term eligibles.

Tennessee Gas Trans. Stks. Publicly Offered

Public financing to enable Tennessee Gas Transmission Co. to extend its pipe line to upstate New York and to increase the daily capacity of its system to 1,060,000 Mcf. was undertaken on Oct. 24. Stone & Webster Securities Corp. and White, Weld & Co. jointly head an underwriting group which is offering 100,000 shares of 4.64% cumulative preferred stock and 250,000 shares of common stock of the natural gas carrier. The preferred stock is priced at $103.10 and the common stock at $30 per share.

Under certificates granted by the Federal Power Commission, the company is currently engaged in extending its pipe line from the present terminal point at Mercer, Pa., to a point near Buffalo, New York. The extension, which is expected to be completed during the coming winter, will enable the company to increase its daily delivery capacity to 1,060,000 Mcf. The company has also applied to the Federal Power Commission for authority to extend the pipe line from Buffalo to a point near the Massachusetts boundary.

On Aug. 31, 1950, the remaining cost of completing the Mercer-Buffalo extension was approximately $48,000,000. Proceeds in part from the current sale of preferred and common stocks, from the sale of first mortgage bonds and from the sale of additional securities to be determined at a later date, will be used to finance the balance of construction. The company will also use part of the current proceeds to retire $15,000,000 in bank loans.

The main transmission line of the company, 1,633 miles in length, extends from the Rio Grande Valley of Texas to Mercer, Pa. Principal deliveries of natural gas are made to the systems of The Columbia Gas System, Inc., and Consolidated Natural Gas Co. Total operating revenues for the 12 months ended Aug. 31, 1950, amounted to $46,395,880 and net income was $10,023,224. Dividends on the common stock have been at the quarterly rate of 35 cents per share since 1947.

With Samuel & Engler

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio — Harry A. Miller and William A. Schoellkopf have become associated with The Samuel & Engler Co., 16 East Broad Street. Both were formerly with George T. Currier.

Railroad Securities

Western Maryland Recapitalization Proposal

Periodically over the years since the end of World War II there have been rumors that a plan for elimination of the substantial dividend arrears on Western Maryland first preferred stock through a stock recapitalization was imminent. These dividend arrears amount to $136.50 a share, a total accumulation of $24,217,830. Practically all of this 7% first preferred stock is owned by Baltimore & Ohio. Fortunately, the 4% second preferred stock, on which no dividend has ever been paid in the company's history, is non-cumulative so that the only real problem is the accumulation on the first preferred. Finally, in a letter to stockholders dated Oct. 10, 1950, the President of the railroad presented a recapitalization proposal.

The plan, as outlined to the stockholders, was, in the opinion of most railroad analysts, hardly worth the time, trouble, and expense that presumably went into its conception and presentation. For one thing, there seems to be no particular reason why the Interstate Commerce Commission should approve the issuance of new securities in payment of the dividend accruals in view of its previously expressed attitude toward the Maine Central and Missouri-Kansas-Texas proposals. This is true even though one of the expressed purposes of the plan is ". . . to make equity financing possible through the sale of additional stock, in event that should prove advisable in the future, . . ."

Even if the Commission should so alter its earlier position as to approve in principle such a proposal as that put forward by Western Maryland, it is extremely unlikely that the specific terms would get any wide support from Western Maryland stockholders. This is particularly true of the present second preferred. Baltimore & Ohio, which was presumably consulted in the drawing up of the plan and found it satisfactory from its point of view, owns only 13% of the second preferred compared with its holdings of 94% of the first preferred and around 30% of the common.

The proposed exchange of securities would be as follows:

Each share of	Would receive
7% 1st Preferred	1.4 Shs. new 5% 1st Preferred
	1.0 Shs. new 4% 2nd Preferred
	1.5 Shs. new Common
4% 2nd Preferred	0.25 Shs. new 4% 2nd Preferred
	1.25 Shs. new Common
Common Stock	1.0 Shs. new Common

The new first preferred, aside from carrying a lower dividend rate, would be cumulative only to the extent of 15% instead of the unlimited cumulative feature of the present first preferred. The new second preferred would be non-cumulative, the same as the present second preferred and would carry the same dividend rate. It would be convertible into common on a share-for-share basis, the same as the present stock.

The amount of first preferred stock outstanding would be increased from 177,420 to 248,388 shares but the dividend requirement would remain unchanged due to the reduced rate on the new shares. The second preferred would be outstanding at 182,765 shares compared with 61,382 shares now outstanding, and the dividend requirement would increase from $245,528 annually to $731,060. Common stock would be increased from the present 532,869 shares to 875,726 shares.

The best that Western Maryland has been able to do in the way of earnings in the past ten years was a net of $6,100,000 after taxes in 1948. On the present capitalization, and without consideration of preferred dividend arrears, this worked out to $8.66 a common share. With the proposed sharp increase in preferred dividend requirements the record net of 1948 would be cut to approximately $4.70 on the larger amount of common proposed. Earnings are not expected to even approach that level this year. On the basis of the obvious difficulty in arriving at any feasible plan to take care of the back dividends on the first preferred without ruinous dilution of the junior stocks the second preferred and common hardly appear to have real attraction.

We Can Hope!

"The examination of contemporary American foreign policy, in the light of such studies (as those planned at the University of Chicago) will show the slow and painful process by which the national interest has freed itself—or to what extent it has failed to free itself—from utopian standards of the past.

"Such an understanding of the relation of reality to American foreign policy is particularly important from the point of view of political practice. Only by such clarification can the distinction be made between those objectives that must be pursued regardless of cost and risk because they are vital to the interests of the United States and those desirable but not vital and therefore subject to negotiation and compromise.

"Such an understanding is the only way by which American foreign policy will be able to avoid the equally utopian extremes of isolation and indiscriminate intervention."—Professor Hans J. Morgenthau.

We can only hope that the work of this new center of study of foreign relations will bear fruit quickly in the form of a better informed and more rational attitude on the part of many American citizens.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

T. Arthur Nosworthy, President of the **Bronx Savings Bank of New York** has announced the elections of William H. Grill as Assistant Vice-President and Howard G. Schuschu as Assistant Treasurer.

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James M. Trenary, Vice-President of the **United States Trust Company of New York**, was on Oct. 20 elected Chairman of the Trust Division of the **New York State Bankers Association.** The election took place at the Fourth Annual Trust Conference, held at the Hotel Syracuse in Syracuse, N. Y. William T. Haynes, Vice-President and Secretary of the Marine Midland Group, Inc., Buffalo, was named as Vice-Chairman. The Division, which represents banks with trust powers from 55 of the State's 62 counties, also elected to its Executive Committee for a term of three years: Robert A. Jones, Vice-President, Guaranty Trust Company of New York; George E. Raymond, Assistant Trust Officer, The National Bank & Trust Co. of Norwich, N. Y.; and John W. Remington, Vice-President and Trust Officer, Lincoln Rochester Trust Company, Rochester, N. Y.

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Robert D. Williams, Jr., President and Director of Calloway Mills, Inc., has been elected to the Advisory Board of the Fifth Avenue at 29th Street Office of the **Chemical Bank & Trust Company of New York** according to an announcement by N. Baxter Jackson, Chairman. Mr. Williams is also Vice-President and Director of Callaway Mills Co. at La Grange, Georgia, and a Director of the Association of Cotton Textile Merchants.

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Willard G. Hampton, Vice-President and General Manager of the Brooklyn and Long Island territory of the New York Telephone Company, has been appointed a member of the advisory committee of the Hamilton Trust Branch at 191 Montague Street, Brooklyn of the **Chase National Bank of New York.**

* * *

Irving Trust Company of New York, announces the election of Allin B. Crouch to the office of Vice-President and Comptroller. Mr. Crouch, now Assistant Comptroller of General Electric Company at Schenectady, N. Y., will take over his new post on Nov. 15.

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Manufacturers Trust Company of New York announces that Charles H. Jones, Vice-President, has in addition to his regular duties, been designated as Senior Officer in the bank's Investment Department. Mr. Jones became associated with the Manufacturers Trust Co. in 1932 when **The Chatham Phenix National Bank & Trust Company** was merged with Manufacturers Trust Co. He was made an Assistant Vice-President at that time, and was promoted to Vice-President in 1936.

* * *

Fred Berry, President of the **North Side Savings Bank of New York** was presented on Oct. 18 by Thomas V. Tozzi, President of the Bronx Board of Trade, with a scroll honoring him for his 50 years as a banker. The scroll which recounts Mr. Berry's career from its start in 1900 to the present day, was signed by leading figures from New York's civic, business and banking circles. Mr. Berry started his banking career as a bookkeeper for the Washington Bank located on 148th Street and Third Avenue, The Bronx. Advancing in his chosen field, he was made a branch Manager of the Columbia Trust Company in 1912; in 1923 the Columbia Trust Company merged with the Irving Trust Company and Mr. Berry was made a Vice-President. Mr. Berry left the Irving Trust Company in 1925 to assume the Presidency of the Bronx County Trust Company. He left Bronx County Trust to take over the Presidency of the North Side Savings Bank on Jan. 1, 1946.

* * *

The Bayside National Bank of Bayside, N. Y., will open a branch office in Little Neck early in January, next, it has been announced by J. Wilson Dayton, President. All modern improvements will be included at the new branch bank building to be located at 250th Street and Northern Boulevard.

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John W. McKeon, member of the law firm of McKeon & Hess, has been elected a trustee of the **Ridgewood Savings Bank of Ridgewood, Queens County, N. Y.** the board of trustees announced on Oct. 23. Mr. McKeon fills the vacancy caused by the death of former Judge Adam Christmann. Having received his B.A. at Columbia College in 1917, Mr. McKeon enlisted in the Army and served with the 1st Daylight Bombardment Group in Europe until 1919. Upon his return he attended New York University Law School and received the degree of Juris Doctor in 1922. He is a member of the Queens County Bar Association, and the New York State Bar Association.

* * *

The consolidation of the **First National Bank in Medford, Mass.** with the **Middlesex County National Bank of Everett, Mass.** was effected under the charter and title of the latter at the close of business Oct. 13. The Medford bank had a common capital of $400,000, while the Middlesex County National had common capital stock of $1,320,000. According to the Comptroller of the Currency's weekly bulletin of Oct. 23 the initial capital stock of the consolidated bank will be $1,520,000, divided into 152,000 shares of common stock of the par value of $10 each. The initial surplus will be $2,500,000, with initial undivided profits of not less than $750,000. The First National Bank in Medford and its branches will be operated as branches of the Middlesex County National Bank.

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The voluntary liquidation of the **Aquidneck National Bank of Newport, R. I.** became effective Sept. 30, following its absorption by the **Rhode Island Hospital National Bank of Providence.**

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The capital of the **Bogota National Bank of Bogota, N. J.** has been increased to $150,000, from $100,000, the $50,000 increase resulting from a stock dividend of $25,000, and the sale of $25,000 of new stock. The enlarged capital became effective Oct. 6.

* * *

Col. Edmond J. Buckley, President of the **Union Bank & Trust Co. of Bethlehem, Pa.,** and a Marine Corps combat veteran of the Second World War, died on Oct. 14 in the Philadelphia Naval Hospital. He was 50 years of age. According to the Philadelphia "Inquirer," Colonel Buckley entered the banking business in Bethlehem in 1935 and was named President of the Union Bank & Trust Co. two years ago. Two of his sons, also Marine Reservists, were recently called to active duty but were granted 30-day extension because of their father's illness.

* * *

Bankers have a grave responsibility of leadership in the battle between free enterprise and forces of socialism, according to speakers at the **Annual Fall Conference of The Bank of Virginia** held in Richmond on Oct. 12. Theme of the one-day conference was "Responsibility of Banks in Preserving the Private Enterprise System at the Local Level." Clark L. Kelly, Vice-President of The Bank of Virginia in charge of correspondent banks, presided. Attending were bankers from Virginia, Maryland, West Virginia and North Carolina. Clinton B. Axford, editor, the "American Banker," was a luncheon speaker. J. Carlisle Rogers, Vice-President of the First National Bank of Leesburg, Fla., told a gathering of some 200 bankers that government security is the road to government slavery. The President of the Florida Bankers Association further declared that, "We can have absolute security by allowing government agencies to come in and take over, but in so doing we lose our freedom and rights." T. Coleman Andrews, of Richmond, President of the American Institute of Accountants, spoke on "Safeguarding the Liquid Wealth of the Community." W. Albert Hess, Executive Director, Consumer Bankers Association, discussed "Regulation W."

* * *

The story of commercial banking at it serves business, industry and the general public today has been presented in a sound motion picture, "Back of Every Promise," produced for the **Continental Illinois National Bank and Trust Co. of Chicago,** by Wilding Picture Productions, Inc., also of Chicago. This picture was made as a public service by the sponsor, and loan copies of the film are available to interested groups on request.

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A proposal to issue a 100% stock dividend and to reduce the par value from $100 to $25 a share will be submitted to stockholders of **City National Bank & Trust Co., Kansas City, Mo.,** at a special meeting, Nov. 22. Under this plan the capital of the bank would be raised from $2,000,000 to $4,000,000, which would increase the number of shares from 20,000 to 40,000. Following the increase in capital stock, the 40,000 shares of $100 par value stock would be immediately converted into 160,000 shares of $25 par value stock. The net result would be that each present stockholder would receive eight shares of new stock for each of his former shares. The capital structure, after the changes would be: capital and surplus, $4,000,000 each; undivided profits, $1,142,049; and reserves, $587,459. Of the total invested capital, based on Oct. 4 condition statement, of $9,729,508, all but $400,000 has been earned. This is in addition to dividends paid since 1919. The bank paid a 100% stock dividend in 1948. Two previous stock dividends were paid. The bank pays $6 a share on the present stock.

Cyril J. Jedlicka, Vice-President of the bank, in charge of its instalment loan department, is making a series of talks on credit for the lumber industry.

* * *

The directors of **California Trust Co. of Los Angeles** have elected C. J. Fuglaar, Auditor; Golden R. Larson, Treasurer, and Alfred Eckhardt, Assistant Treasurer, it is announced by Frank H. Schmidt, President. Mr. Fuglaar, a member of the trust company's staff since 1923 and former Treasurer, succeeds as Auditor F. J. Boulton, resigned. Elected Assistant Treasurer in December, 1949, Mr. Larson came with the company in May, 1949, after a number of years' experience in banking and in executive capacities with the Federal Deposit Insurance Corp. and the War Assets Administration. Mr. Eckhardt was an accountant with the Guaranty Trust Co., New York, for 12 years before joining the trust company's staff in October, 1947.

* * *

Stockholders of the **Novato Bank, of Novato, Cal.,** by an overwhelming majority, have approved **a merger with the Central Valley Bank of California**, it was announced at Novato on Oct. 19 by George D. Morrison, Cashier. Simultaneously, Charles P. Partridge, President of the Central Valley Bank, revealed plans for alteration and improvement of the Novato bank's present quarters. He added that all personnel will be retained and the staff augmented by the addition of Ernest Hall as Manager, Clem Forni as Assistant Vice-President in charge of the Dairy and Livestock Loan Division and C. Robert Partridge.

* * *

In keeping with the growth of the city, an increase in the capital stock of the **National Bank of Commerce of Seattle, Wash.,** principal subsidiary of **Marine Bancorporation,** from $3,000,000 to $4,000,000 has been approved, subject to the approval of the Comptroller of the Currency. An increase in the bank's surplus from $9,500,000 to $10,000,000 was also approved. The Oct. 4 statement of the bank showed total capital funds in excess of $23,000,000.

With Hamilton Managem't

(Special to The Financial Chronicle)

DENVER, Colo. — Herbert Berger and George L. Sieber are now with Hamilton Management Corp., Boston Building.

Lyon-Raymond Corp.

GREENE, N. Y. — Lyon-Raymond Corp. is engaging in a securities business here.

Dwight Miller Opens

Dwight D. Miller is engaging in a securities business from offices at 556 West 140th Street, New York City.

F. C. Huyck Sons

RENSSELAER, N. Y. — F. C. Huyck & Sons is engaging in a securities business from offices here.

Securities Salesman's Corner

By JOHN DUTTON

Successful securities selling involves more than the mere ability to make a sale. By this, I mean that you must also sell securities that will not come back some day and "bite you." Selling the wrong type of securities to the wrong people, selling the right securities but at the wrong time, allowing some securities to stay "put" too long—these are the almost unavoidable incidents which seem to be part and parcel of the securities business. The long-term cycles come along and can wipe out years of effort to established customer goodwill.

It was once said that the life of a security salesman's clientele is about five years. I don't know if this is true, but there is continuous deterioration and constant rebuilding is always necessary. However, the main consideration which seems uppermost at this time, is to find a method of protecting those accounts which form the backbone of your business against a major business reversal, if and when one takes place.

Your own opinions regarding the business and economic outlook should of course be your guide as to the recommendations you make to your clients. But it is only prudent to realize that we are now sitting right on top of the longest and most intensified period of inflationary business and monetary expansion in our history. Some day there must come an economic readjustment of major proportions. This will happen unless the entire course of human history has been changed. Without being an alarmist or taking a positive position either way, isn't it possible to put some of your customers in as strong a defensive position as they can afford at this time, and meanwhile keep them still invested to some extent in attractive yet volatile situations? At least, if they understand the purpose of arranging their affairs in a sensible manner, isn't it a logical conclusion that you will have clients left with buying power and courage even after a severe collapse? By hedging in this manner you win both ways—if conditions remain good they still hold some good common stocks, if reverses come they have assets that will retain their dollar values.

Admittedly, there are all kinds of security buyers. There are those who give you orders and do not wish suggestions. I just heard of one investor who told his broker to invest $35,000 in about 75 different common stocks which he had selected. The broker bought them and collected some substantial commissions. This investor wanted it his way — he got it! There are also the perpetual optimists, including those who want to take the last top dollar out of every market swing, and others who resent any suggestions of conservatism and caution. There isn't much you can do in such cases but let these customers have their own way and hope for the best.

Your other clients, however, might be very much interested in an invitation to come into your office where you can discuss their investment position in its entirety with them. You might even find it desirable to schedule a few interviews in the evening in your own office. You can really get at the facts and work out a constructive relationship with a customer at a time like that. Among your present accounts there are probably some who are doing business with several other firms. This could give you an opportunity to control all the business if the interview was handled properly.

The retail securities business is such that, no matter what happens, and with all of its ups and downs, you can always find a constructive reason for doing business. The majority of people are reasonable and they do not expect the impossible, but there is one thing they will value above all else, and that is a sincere appreciation of their position and their problems. It will pay in the long run to build as solidly as possible **now.**

Elementary Facts for The Untutored Investor

By CARL SCHICK*
Director of Public Relations,
San Francisco Stock Exchange

Mr. Schick calls attention to widening participation in investments by public, and explains some elementary facts regarding nature of various classes of securities. Says goal when making investments is to secure safety and fair income return. Lists reference books which may assist in understanding of securities.

Today approximately one million people are stockholders in American Telegraph and Telephone Company, and this is only a fraction of the story. More than $3\frac{1}{2}$ billion worth of bonds and debentures of the Bell System are outstanding of which huge blocks are held by insurance companies and financial institutions as well as by individuals. Undoubtedly, most of you in the audience have life insurance policies and a part of the premium you pay is invested in securities of the Bell System. It would probably be going too far to say that all policy holders of life insurance have an interest in the Bell System through such investments, but it is not inconceivable that it could run into several million persons.

Carl Schick

Seriously speaking, however, most of you are here tonight to get a better understanding about securities. One point I should like to impress upon you is that it is not any easier to "get rich quick" in the stock market than in any other line of business. You must realize that any business undertaking involves a certain degree of risk. It is entirely up to the individual as to the amount of risk he is willing to assume. Last week some one from the audience asked what amount would be a fair return on an investment portfolio. Again I repeat that this depends on the individual and the amount of risk he is willing to accept.

The well known corporations with a long established dividend record obviously will sell at a lower yield than a new enterprise which has not paid any dividends.

A great number of the prospectuses issued in connection with new issues today bear the admonition, "This is a speculative issue." To illustrate what this means, let us take the example of a new mining venture whose securities were offered for sale. Preliminary exploration work and diamond drilling indicated a large, rich ore body. A corporation was formed and securities were sold to secure funds to develop the mine. Everything progressed as predicted by the mining engineers until a cross-cut from the mine shaft was started out to the ore body. Suddenly a large subterranean supply of water was encountered. All available pumps were used and additional pumps installed, but the water problem was too great. I relate this example to you to bring home the risk involved in such an undertaking. Had the water problems not arisen the securities of the company probably would be considerably higher than their original price, rather than a fraction of it as they are today.

Do not blame the founders of such a company if you risk your funds in a similar venture, for they are much greater losers proportionately than you. You are a speculator when you risk funds in such an undertaking.

Two Goals: Safety and Return

As an investor, you have two principal goals: Safety and return. One conflicts with the other. An investor is primarily interested in income and safety of principal while a speculator looks for an appreciation in price.

The corporate form is one of the most common types of business. We are primarily interested in companies in business for a profit, although there are also religious, non-profit corporations, etc.

Securities issued by corporations fall into two broad classes—stocks and bonds.

Bonds are issued by governments, states, cities and corporations. For the purposes of this lecture, bonds discussed will be limited to those issued by corporations.

Bonds represent a fixed indebtedness of the issuer — they have a date of maturity and a set interest rate. Bonds can really be likened to a mortgage on your home, the prime difference being that on your home one lending institution can supply all of the funds whereas in most large bond issues a great number of institutions and individuals participate to the extent of a thousand dollars or several million dollars. Most bonds are backed by a mortgage which can be either open-end (that is subsequent bond issues may be covered by the mortgage) or a closed-end (which does not permit additional bonds under the same mortgage).

Pacific Gas and Electric Company has approximately $500 million in bonds outstanding in series which run from "I" in the alphabet through "S." These bonds all are covered by an open-end mortgage and were issued at different times as well as at varying rates of interest.

Most bonds issued today are callable. The issuing corporation may redeem or call them, usually at a premium, before the maturity date.

Some bonds have a senior lien against all properties and any additional bond issues would be junior to, or follow, the earlier issue.

You undoubtedly have also heard of debentures. A debenture is merely a promise to pay back borrowed funds and is not backed up by a mortgage. Pacific Telephone and Telegraph Company has various issues of debentures outstanding in the total amount of $400 million.

Do not be misled into thinking that a bond is always safer than a debenture. In order to sell a large debenture issue a corporation must enjoy a very high credit rating.

Then we have convertible debentures. American Telephone and Telegraph Company has done a vast amount of financing through this medium. After certain dates the holder, on the payment of additional funds in the case of American Telephone, may convert the debentures into capital stock. This is often profitable to the debenture holder and in some instances entire issues have been converted. Phillips Petroleum Company and Southern Pacific Company have secured huge sums through convertible debentures this year.

Some companies on the issuance of bonds or debentures obligate themselves to set aside certain funds each year in order to pay off the issue at maturity—this is known as a sinking fund.

Bonds and debentures are issued in either coupon or registered form. Coupon bonds are in bearer form and coupons are clipped on interest dates and then presented for payment. Registered bonds are registered in the name of the holder and interest payments are sent to the holder by check.

Corporate Stocks

Corporate stocks represent ownership in the corporation and in the case of liquidation they share only after bondholders and creditors are satisfied. It represents an equity in the company and is comparable to the down payment you make on a home when you purchase it.

One of the most confusing terms to the lay person is "par value." Par value at one time had a direct relation to the original offering price of securities. Today there is little relation between selling price, or book value and par value. For example, American Telephone and Telegraph has a par value of $100 and is currently selling at $150\frac{1}{4}$, General Motors has a par value of $5 and is selling at $52\frac{3}{4}$ and Pennsylvania Railroad with a par value of $50 sells for $19\frac{5}{8}$, while General Electric, a no-par-value stock, closed today at $48\frac{1}{2}$.

Corporate stock is divided into two main classes: Common and preferred.

Preferred stock is usually preferred as to dividends; that is, a set amount of dividends must be paid before any dividends can be paid to holders of the common stock. Also, dividends on preferred stock are usually cumulative and if not paid in any given year they must be made up in full before any dividends can accrue to the common stock. Preferred stock may also be participating—that is, after payment of the usual dividend rate to the preferred and of a designated amount to the common stock, preferred stockholders will receive additional funds. Look to the preferences set forth in the articles of incorporation of the company to find out exactly what you are getting.

Convertible preferred stocks are issued in some instances, such as Crown Zellerbach Corporation, General Paint Corporation and Southern California Edison Company, all of which have such stocks outstanding. Crown Zellerbach has recently called all of its outstanding issue of convertible preferred stock. At the call price of $102.50 per share plus accrued dividends, obviously little will be left to be called when the stock can be converted into three shares of common stock which are worth approximately $42 a share or the equivalent of $126 for each share of the preferred.

Most preferred stocks that are issued today are callable and may or may not have voting rights.

After all the various types of bonds and preferred stock combinations that are possible, there is the common stock. Some companies may have some or all types of securities outstanding while others have only a common stock issue outstanding.

The common stockholders are usually considered the owners of the business and normally have full voting rights as to the election of directors. There is no callable feature. Earnings of the corporation after all prior requirements of interest and preferred dividends, are considered the property of the common shareholders. This does not mean that all such earnings will reach the shareholders in the form of dividends, as normally a portion or all of these earnings will be retained in the business.

Sometimes there will be different classes of common stock, such as Class A and Class B, with one class having the voting rights, but being the equal of the other class in all other respects.

Many of you have probably wondered what is meant by stock-splits. There have been a number of such instances in recent months. Probably one of the most outstanding examples was the recent split of General Motors common stock. Stockholders received two shares of $5 par value stock for each share of $10 par value stock. All things being equal, this does not mean a change in your proportionate holdings in the company. It does give it better marketability and tends toward wider distribution of the stock since many people will buy a stock at $50 per share who would not at $100 per share. Split-downs are just the reverse and mean that a smaller number of shares are outstanding after they occur.

Stockholders sometimes receive benefits other than cash dividends which may be in the nature of stock dividends or rights to purchase additional shares. Through rights (usually only common) stockholders are given the right to purchase additional shares. For example, Pacific Gas and Electric Company this year offered its common stockholders the right to buy one additional share of common stock, at $30 per share, for each 10 shares held. This price represented a discount from the general market and stockholders had the choice of purchasing additional shares or selling the rights.

Reference Books

Now that I hope I have whetted your appetite for more knowledge of securities, and in answer to requests for the names of some good reference books on the subject for further information, here are a few suggestions:

"Investment Analysis," John H. Prime, Professor of Finance, New York University.

"The Intelligent Investor," Benjamin H. Graham.

"The Theory and Practice of Earning a Living," John Wharton.

"How to Lay a Nest Egg," Edgar Scott, published by John C. Winston Co.

One thing to look for in any reading is to be sure that it is a recent publication, otherwise there is the danger of constant change.

Any reference to specific securities has been purely for the purpose of illustration and does not mean a recommendation to buy or sell the securities mentioned. Opinions stated are purely my own and are not necessarily the views of my employers.

*A lecture by Mr. Schick at the second meeting of the Lecture Series on Securities of the San Francisco Stock Exchange in conjunction with the Adult Educational Program of the San Francisco Public School System, San Francisco, Calif., Oct. 10, 1950.

Represents First Secs.

AHOSKIE, N. C. — Joseph H. Thigpen is representing First Securities Co. of Durham, N. C., from offices at 231 Maple Street.

Represent Joe McAlister

GREENVILLE, S. C.—William Allison and Courtenay Anderson are representing Joe McAlister Co., 3 South Church Street, in North Carolina.

Now Goulet & Co.

William E. Goulet is now doing business as Goulet & Co., 25 Broad Street, New York City, in partnership with E. F. Goulet.

Scribner Named To Head Ass'n Of S. E. Firms

Joseph M. Scribner, senior partner of Singer, Deane & Scribner, Pittsburgh, Pa., has been nominated 1951 President of the Association of Stock Exchange Firms, and Maynard C. Ivison, of Abbott, Proctor & Paine, New York, has been nominated as First Vice-President; Ralph W. Davis, of Paul H. Davis & Co., Chicago, as Second Vice-President; and F. Warren Pershing, of Pershing & Co., New York, as Treasurer, it has been announced.

Joseph M. Scribner

Election of officers will take place at the Annual Meeting of the Board of Governors of the Association to be held on Nov. 15 and 16, 1950, at the Waldorf-Astoria Hotel in New York City.

The Nominating Committee of the Association has also named the following for membership on its Board of Governors:

Nominated for their first terms: Henry I. Cobb, DeCoppet & Doremus, New York; Roger Cortesi, Auchincloss, Parker & Redpath, New York; Richard W. Courts, Courts & Co., Atlanta; Reginald W. Pressprich, Jr., Pressprich & Co., New York, and Sewell M. Watts, Baker & Watts & Co., Baltimore.

Renominated were Ralph W. Davis, Paul H. Davis & Co., Chicago; Russell E. Gardner, Jr., Reinholdt & Gardner, St. Louis; Maynard C. Ivison, Abbott, Proctor & Paine, New York; F. Warren Pershing, Pershing & Co., New York; Frank C. Trubee, Trubee, Collins & Co., Buffalo; Hans A. Wildermann, Carl F. Loeb, Rhoades & Co., New York; Phelps Witter, Dean Witter & Co., Los Angeles.

Named for the next nominating committee were Eugene Barry, Shields & Co., New York; William E. Huger, Courts & Co., Atlanta; James M. Hutton, Jr., W. E. Hutton & Co., Cincinnati; George R. Kantzler, E. F. Hutton & Co., New York; Philip Nash, Nash & Co., New York.

Harry H. Moore Passes; Hallgarten Partner

Harry Haight Moore, a partner in the international banking firm of Hallgarten & Co., died at his New York City residence last Friday at 77 years of age.

Mr. Moore from 1933 to 1941 was a governor of the New York Stock Exchange of which he was a member since 1909 and served as Chairman of several of the Stock Exchange's committees.

Mr. Moore started his Wall Street career as Secretary to the late A. H. Boissevain and was a partner of the old firm of A. H. Boissevain & Co. until its merger with Hallgarten & Co. in 1925. Mr. Moore was formerly a director of the Anaconda Copper Co. and the Chili Copper Co.

Rochester Securities

ROCHESTER, N. Y.—C. Edward Coughlin is now doing business under the firm name of Rochester Securities Co., 272 North Street.

Henry Cone, Jr.

Henry Cone, Jr., member of the New York Stock Exchange, died at the age of 55.

British Defense Economy

By PAUL EINZIG

Commenting on Britain's rearmament efforts, Dr. Einzig foresees difficulties in expanding arms production because of inadequate facilities and tight manpower situation. Says troublesome aspect of situation is possibility of steep increase in wages, and looks for restoration of physical controls of wartime severity.

LONDON, ENGLAND — The three days' debate on national defense in the House of Commons on Sept. 12 to 14 gave some indication of the trend of Britain's defense economy. Although the government was subject to much criticism on account of the delay in its decision to embark on rearmament on a large scale, and in some directions a larger effort was urged, the grand total of the intended expenditure of £3,600,000,000 during the next three years has not been criticised as inadequate. The gradual increase of the defense budget as rearmament is expected to get into its stride was described even by Opposition speakers as formidable. To revert to the often-quoted formula of ten years ago, even though the rearmament drive may be considered "too late" it is certainly not considered "too little." Beyond doubt, it is the biggest rearmament effort ever undertaken by Britain in time of peace. It has always been a British tradition to neglect national defense between wars, on the assumption that after the outbreak of a war there would be enough time for rearming, thanks to the protection provided by the channel that separates the British Isles from the mainland of Europe. This time it is realized, however, that in the changed circumstances even the Atlantic or the Pacific would be inadequate for protection against devastating modern weapons, and that the narrow stretch of water between Dover and Calais could certainly not be relied upon as in past wars. Hence the determination to rearm in time of peace.

Dr. Paul Einzig

Admittedly, expressed in terms of divisions, even the increased effort is far from adequate. But it would have been idle and unrealistic to increase the amounts earmarked for defense by further billions. For it is bound to take some years before the arms industries can achieve full output, and in the meantime the government would not be able to spend much more than the amount already earmarked. Indeed, as far as the current financial year is concerned, the amount of additional expenditure is expected to be so small that the government does not even consider it necessary to introduce an autumn budget in order to provide the corresponding amount of revenue. For the arms ordered today are not likely to be delivered until well after the close of the financial year on March 31, 1951.

The absence of an autumn budget must be taken as an indication that the government has abandoned the principle of a balanced budget as a result of the increase of defense expenditure. It is the government's present intention to increase revenue to cover that part of the cost of rearmament which will not be covered by American assistance. This is considered essential from the point of view of the success of the rearmament drive, because unless an amount of purchasing power corresponding to the increased expenditure is neutralized by means of higher taxation there is bound to be an excessive demand for civilian goods. In view of the intended diversion of some 250,000 workers from civilian to military production, it is indeed essential to curtail civilian demand. The government does not intend to attain this by restoring rationing and controls, though the possibility of having to do so is not overlooked. Nor does the government intend to revert to the old-fashioned method of curtailing purchasing power by means of high interest rates and general credit restrictions. In the circumstances high taxation appears to be the only means.

Unfortunately, taxation in Britain is already at a level which is bordering the prohibitive. Some months ago Sir Stafford Cripps stated that since the war taxation has been reduced by some hundreds of millions of pounds per annum, and that therefore there is a scope for a corresponding increase of taxation to finance rearmament. What he appeared to overlook was that such an increase would tend to discourage production at a time when it is essential, from the point of view of the rearmament drive, to provide every possible incentive and to avoid disincentives. The public may not be willing to exert itself in time of peace if burdened with wartime taxation. However, as and when the dangers of the situation are realized this difficulty may be overcome. By the time rearmament expenditure has assumed considerable dimensions the public may have become psychologically prepared for shouldering its financial burdens.

A much more worrying aspect of the situation is the possibility of a steep increase of wages. In the course of the debate the Minister of Economic Affairs, Mr. Hugh Gaitskell, pointed out that, in order to secure a better response to recruiting, the pay rates for the three fighting services had to be brought in line with the increase of industrial wages since the end of the war. At the same time he appealed to the industrial workers not to regard the increase of service pay as a signal for correspondinig wage demands, for the granting of such demands would simply restore the old state of affairs under which the relatively high level of industrial wages had diverted men from the armed forces to industry. Mr. Gaitskell appealed to the trade unions to moderate their wage demands. His appeal followed close on the decision of the Trades Unions Congress to disregard the government's wage-freezing policy. It remains to be seen, however, whether the government will be able to dissuade its supporters to take full advantage of the increase of the scarcity of labor through rearmament. In this respect present indications are none too encouraging.

Sooner or later the government may have to realize that it is not enough to exhort the public to work harder, to consume less, and to be content with lower wages than they would be able to secure on the basis of the law of supply and demand of labor. Even though the increased evidence of danger may induce the masses to accept some sacrifices and to exert themselves for the sake of survival, voluntary sacrifices and self-denial may not be sufficient to meet requirements. Even if the entire additional purchasing power pumped in circulation through rearmament should be withdrawn through higher taxation, it would not in itself obviate the danger of inflationary increases of prices and of depletion of stocks of consumers' goods. For additional purchasing power will be created not only by the government and producers of arms but also by producers of civilian goods and employers in general, by yielding to pressure for higher wages. It would be both financially and politically impossible to raise taxation to a level at which it would absorb that additional surplus of purchasing power.

The only possible answer to the problem in the long run is the restoration of physical controls of wartime severity. This could be done now while supplies in many civilian goods are still plentiful, or later, after these supplies have been depleted. Possibly a Conservative government would be tempted to follow the example of several continental countries which are engaged in disinflating or deflating through high interest rates and credit restrictions. But this remedy would be politically impossible under a Socialist government. Even a Conservative government would find itself confronted with stiff resistance if it were to resort to the devices which have come to be regarded in Britain as hostile to the vital interests of producers and consumers alike.

The difficulties of the economic aspects of rearmament were not brought out sufficiently during the debate by government spokesmen. Yet from the point of view of the American reactions to the scheme of American assistance to British rearmament it would have been wiser if they had not spoken entirely for home consumption. It is true, from a budgetary point of view, Britain's position compares most favorably with that of the United States. On this ground American financial assistance to Britain might be subject to criticism in Congress or in the American press. Yet, on the other hand, the United States are in an incomparably more favorable position in almost every other respect. They have an unemployed labor reserve which is available for absorption in rearmament, while in Britain there is already over-full employment even in the absence of rearmament. They have larger surpluses of supplies of civilian goods and of raw materials in general. They have a much higher standard of living which could be lowered in the interest of rearmament without thereby reaching or even approaching the bare subsistence level which in the case of lower-paid workers in Britain is not very remote. Above all, the United States could afford it easier than Britain to put up with a deterioration of their international balance of payments. Last but by no means least, the American working classes are more effectively inoculated against the germs of Communist infiltration to which the British working classes would be exposed to some degree in case of a major deterioration of their standard of living.

Continued from page 9

Monetary Policy in the International Economy

they need for buying essential American goods and services. Insofar as the monetary policies of the non-dollar nations permit the expansion of exports, they contribute decisively to progress toward freedom in international economic relations, and thus to the achievement of one of the prime goals of our own international policy.

International effects of U. S. monetary policy—Our economy is less dependent than most other economies on monetary conditions in other countries, but monetary developments here often determine economic development abroad. For example, the slight recession here in the first half of 1949, which made little impression on domestic consumption, considerably affected the international trade of some foreign countries. In the view of some observers, it even influenced the timing of the devaluation of the pound sterling and many other currencies in September, 1949. Many countries have to rely upon vital imports from the United States, and upon their ability to earn the dollars needed for that purpose by means of exports. A recession that curtails our foreign purchases makes it more difficult for other countries to buy our foodstuffs, raw materials, and machinery, upon which their domestic welfare depends. On the other hand, any serious inflationary development in the United States tends to raise the prices of our domestic products faster than those of our imports. It thus tends to worsen the terms of trade of foreign countries that need our products, thereby endangering their economic stability. For instance, the rise in U. S. prices from 1946 to 1948 considerably increased the balance-of-payments difficulties many foreign countries were already having.

Monetary Policy in the Present Emergency

Developments since the middle of 1950 have clearly shown the impact of international events on monetary conditions and policy in the United States.

Before the attack on South Korea, our most difficult postwar financial adjustments appeared to have been made. Now we must again build up our defenses against inflation. Rearmament will divert much of our manpower and material resources to the production of goods which, although vital to our survival, will not be available for puchase by civilian consumers. At the same time, the expanded defense activities will increase the purchasing power of the population. Either of these factors could easily build up serious inflationary pressure. Monetary policy has special responsibilities to avoid inflationary disturbances at a time when economic instability might seriously impede defense against grave political and strategic dangers.

Monetary authorities must have regard for the effects of monetary policy on the management of our large public debt. The Treasury must constantly refund maturing issues, and it must be prepared to borrow additional money if receipts fall short of Government expenditures. A rise in interest rates makes these operations more costly, it is true; but inflation, with its increases in prices and wages, would cost the Government far more. Moreover, the effect of inflation on every member of the community, and the general disturbance created by a drop in the purchasing power of the dollar at home and abroad, would seriously hamper our defense effort.

U. S. anti-inflationary policy—As soon as the danger of renewed inflation became apparent, the President, the Congress, and the monetary authorities took steps to counteract it.

The Defense Production Act and the executive orders issued by the President have given the Federal Reserve special powers to combat inflation in two strategic areas. The Federal Reserve is again regulating consumer instalment credit, and for the first time in its history is regulating real estate credit for new construction. Restriction of real estate credit and consumer instalment credit is intended to dampen the demand for new homes and for many durable consumer goods and thus help to make way for the diversion of strategic materials to armament production without inflation.

Even before passage of the Defense Production Act, the discount rate of the Federal Reserve Banks, unchanged since August, 1948, was raised by one-fourth of a percentage point in August, 1950. Also, the Federal Reserve System, jointly with the other agencies entrusted with the regulation of credit institutions, issued a formal request that these institutions abstain from any credit expansion that would interfere with the defense effort. The Federal Reserve Open Market Committee is directing its operations toward restraint of inflationary forces. The System continues to maintain an orderly market for government securities, but it seeks to limit any increase in its holdings of government securities and to offset purchases made in maintaining an orderly market by sales of other securities. These sales are to prevent an increase in bank reserves, which would provide the banks with additional funds for multiple credit expansion. The result of the System's operations has been a moderate rise in short-term interest rates, a development which in itself tends to discourage the extension of excessive credits.

International repercussions—The recent rapid rise in effective demand in the United States deeply affected the international flow of goods and capital. The drop in our exports and the rise in our imports, which had been going on for some time, has been accelerated. In August, 1950, our imports exceeded exports for the first time in 13 years.

Moreover, a number of foreign countries have begun to take measures against the international spread of inflation. It is extremely encouraging to note that these measures do not primarily reintroduce direct controls, but are concentrating on the instruments of monetary policy. Belgium, Germany, the Netherlands, and Sweden, in particular, have tightened reserve requirements or increased discount rates. At least three of these countries have experienced the harmful results of direct controls for so many years that they have become convinced of the superiority of monetary policy. Obviously, however, the situation would be very much confused if the United States itself were compelled to reimpose direct controls.

Prospects for the future — The Federal Reserve System is prepared to take further action if inflationary tendencies continue. Quite recently, it has tightened its regulation of consumer instalment credit, and it has further limited the availability of reserves through its open market operations. For obvious reasons I cannot tell you anything about our plans for the future; however, I can give you the assurance that we shall carefully consider the use of any anti-inflationary weapon in our arsenal.

An inflationary increase in the supply of money stems chiefly from two sources: expansion of credit to the public, and expan-

sion of credit to the government due to a budget deficit. The efforts of the Federal Reserve System serve mainly the purpose of keeping the private credit situation in hand. The government budget must be kept as nearly as possible on a pay-as-you-go basis by means of tax legislation. In addition, the refunding of maturing government securities, as well as the flotation of any new issues that may become necessary because the yield of increased taxes may lag behind the rise in government expenditures, should be so managed that the largest possible share of the debt is sold to the nonbank public.

Monetary Policy or Direct Controls

Even with all of these deterrents in effect, it would be possible for private spending to increase further, especially in view of the public's large holdings of liquid assets. It would be equally possible for our presently planned level of defense expenditures to prove inadequate. In either eventuality, it would be necessary to impose even stricter monetary and credit controls and to raise our taxes still further. Otherwise, direct controls would have to be imposed.

From the point of view of a free economy, there can be no doubt that avoiding inflation by monetary and credit controls and increased taxes is far preferable to suppressing the symptoms of inflation by price and wage controls and rationing. Such a course, however, will need the wholehearted cooperation of the public. Enacting higher taxes and imposing credit restrictions are highly unpopular measures. If too many people, while applauding anti-inflationary policies affecting the other fellow, oppose all those that would restrict their own dealings, direct controls may become unavoidable.

Price controls and rationing tend, at least in the first moment of their application, to give the impression that they hurt people less than strict credit controls and high taxes: they leave the money income untouched, and preserve the outer appearance of a stable price level. Actually, however, they undermine the market mechanism: prices cease to have economic meaning, money ceases to play its economic function, and ration points fixed by the government tend to become the main motors of economic activity. Such a development would be inconsistent with the principles of individual initiative on which our economic system is based, and should be only a last resort during an emergency in order to protect our system from greater danger.

However, if we can convince the public to support the anti-inflationary endeavors of our monetary and fiscal authorities, we can hope that our economy will bear the burden of the rearmament effort without suspending the price mechanism and thus impairing its efficiency. This burden will be a small price indeed to pay for the preservation of our freedom.

N. Y. Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Robert Strasser to Judson L. Streicher will be considered by the Exchange on Nov. 2.

Transfer of the Exchange membership of the late George Shaskan to Sidney A. Shaskan will be considered on Nov. 2.

Investment Bankers Association Nominates Slate for Officers in 1951

Laurence M. Marks

Albert T. Armitage

Russell D. Bell

Walter W. Craigie

Mark C. Elworthy

John F. Fennelly

Joseph T. Johnson

CHICAGO, Ill.—Laurence M. Marks, senior partner of Laurence M. Marks & Co., New York investment banking and brokerage house, has been nominated as the next President of the Investment Bankers Association of America, it was announced by Albert T. Armitage, Coffin & Burr Incorporated, Boston, President of the Association. Named with Mr. Marks are the following nominees for Vice-President:

Russell D. Bell, Greenshields & Co. Inc., Montreal
Walter W. Craigie, F. W. Craigie & Co., Richmond
Mark C. Elworthy, Elworthy & Co., San Francisco
John F. Kennelly, Glore, Forgan & Co., Chicago
Joseph T. Johnson, The Milwaukee Company, Milwaukee

Nominations, made by the Board of Governors, are considered tantamount to election in the IBA, which will act on the ticket at its annual convention scheduled for Nov. 26-Dec. 1 at the Hollywood Hotel, Hollywood, Fla.

Much like the incumbent IBA President, Mr. Marks has devoted his entire business life to the securities business. He has been affiliated with but one house other than his own firm, founded in 1932. Upon graduation, in 1914, from Yale University, where he was elected to Phi Beta Kappa, he entered the employ of Lee Higginson & Co. Starting as a cub salesman, he assumed positions of increasing responsibility and was sales manager of the New York office at the time he withdrew to organize Laurence M. Marks & Co., to engage in a general underwriting and brokerage business. His firm is a member of the New York Stock Exchange and associate member of the New York Curb Exchange.

Mr. Marks has a wide acquaintance in the financial community and has held various administrative positions in trade groups. He has been active in IBA affairs since 1933; served as a governor 1939-40; and in 1947 was elected a Vice-President, a position he holds today. He was either Chairman or a member of numerous Association committees and in 1941-42 served as Chairman of the New York Group of the IBA.

Positions of leadership held by Mr. Marks in other organizations in the securities industry include: Governing Committee of the New York Stock Exchange 1934-38; governor, National Association of Securities Dealers 1940-43; and a governor of the Association of Stock Exchange Firms 1945-48. He was President of the Bond Club of New York 1932-33.

In addition to heading his own firm, Mr. Marks is a director of Air Products, Inc., Emmaus, Pa.; Divco Corp., Detroit, Mich.; National City Lines, Inc., Chicago, Ill.; Shamrock Oil & Gas Corp., Amarillo, Texas; and is a trustee of Brooklyn Savings Bank, Brooklyn, N. Y.

Much of Mr. Marks' time and energy has been given to philanthropic work, and he has served as a director of the Brooklyn and Queens Y. M. C. A.; Brooklyn Bureau of Charities; Brooklyn Hospital; and Travelers Aid Society of New York. In 1936 he was Chairman of the Citizens Family Welfare Committee of New York.

Mr. Marks has twice been in the military service. In the Mexican border campaign he served with Squadron A, New York National Guard 1916-17; and in World War I was Captain in the Fifth Field Artillery, First Division, A. E. F. He was awarded the Croix de Guerre and received various division and regimental citations.

As a Vice-President for the past three years, Laurence Marks has participated in the formulation of prevailing Association policies, including the emphasis on educational efforts, according to President Armitage.

During the past year, he explained, the IBA has been concentrating on the public education program inaugurated several years ago and has also been working with other segments of the securities business toward improving public understanding of the saving-investing process. Member firms and IBA groups have carried the program to the grassroots through popular lectures, investment forums, exhibits at trade fairs, and adult courses given in cooperation with universities, secondary schools, and women's clubs.

The employee training program of the Association established at the close of World War II, the Boston banker added, has been extended to include, in addition to a formal classroom course offered at various universities, a correspondence course in the fundamentals of investment banking prepared in cooperation with the University of Chicago. This home-study course has just been announced and is open to the general public as well.

Together with other divisions of the industry, Mr. Armitage continued, the IBA has supported a fellowship program that provides university professors an opportunity to get a practical insight into all phases of the securities business.

"Real progress is being made," he declared, "but the big job still lies ahead."

39th Annual Convention of Investment Bankers Association of America Nov. 26 - Dec. 1

The 1950 Annual Convention of the Association will be held at the Hollywood Beach Hotel, Hollywood, Fla., beginning on Sunday, Nov. 26, and ending on Friday, Dec. 1.

The final details of the convention program have not yet been fully completed and cannot be announced at this time. There will, however, be a convention session each morning from Monday through Friday. Prominent speakers will address certain of these sessions, and at others forums will be held on subjects of timely interest. In addition to the convention sessions, there will be two or three meetings of the Board of Governors; and most of the national committees of the Association will hold meetings during the convention and will present their annual reports at that time. An open meeting of the Municipal Securities Committee will be held on Sunday afternoon. With the exception of this meeting, and possibly one or two other committee meetings, it is not planned to schedule any business sessions in the afternoon.

Hollywood is situated on the east coast of Florida, 17 miles north of Miami. The Hollywood Beach Hotel, which lies directly on the ocean, is widely known as one of America's finest and best appointed resort hotels. It has its own private beach and is surrounded by spacious grounds containing tropical gardens, a swimming pool, and excellent tennis courts. Splendid facilities for golf, deep sea fishing, and other recreation are also provided.

Qualifications for Convention Attendance

Section 4 of Article Five of the Constitution provides as follows:

Each member of the Association shall, in person or by duly authorized delegate, be entitled to attend each convention, and to cast one vote thereat upon each motion or question submitted. Each such delegate must be a person occupying an active executive office or position in the organization of the member.

Article Five of the By-Laws provides as follows:

Attendance at conventions shall be limited to:

(a) Individual members and duly authorized delegates as set forth in Article five, Section 4, of the Constitution.

(b) All other individuals eligible as delegates;

(c) Assistant Vice-Presidents, Assistant Secretaries, and Assistant Treasurers of incorporated members;

(d) Assistant Managers of bond or investment departments of members which are national or state banks or trust companies;

(e) Managers of registered branch offices and Managers of regularly constituted buying or sales or syndicating or trading departments.

It is an established policy of the Association that only those who are definitely eligible under the By-Laws may attend an annual convention. It will therefore be impossible to comply with requests to take guests to the convention, other than members of the immediate family of a delegate or alternate.

Convention Registration Fee

A registration fee will be charged for each delegate and alternate and his wife or other member of his family attending the convention. This fee will be $45 for men and $15 for women. Checks covering registration fees should be made payable to the Association and forwarded to the Chicago office of the Association.

Hotel Arrangements

All reservations for hotel rooms for the convention must be made through the Chicago office of the Association. Hotel rates will be American plan.

Convention Transportation

Special trains for the convention will be operated from New York and Chicago to Hollywood and return. In addition, special cars will be operated from Cleveland, Detroit, Pittsburgh, and St. Louis.

New York Special Train—Pullman reservations for the going trip should be made through the New York Transportation Committee, of which Joseph Ludin, Dillon, Read & Co. Inc., 46 William Street, New York 5, N. Y., is Chairman.

Chicago Special Train—Pullman reservations for the going trip should be made through Lee H. Ostrander, William Blair & Co., 135 S. La Salle Street, Chicago 3, Ill.

Cleveland Special Car—Pullman reservations should be made through Robert B. Blyth, The National City Bank of Cleveland, East Sixth Street and Euclid Avenue, Cleveland 1, Ohio.

Detroit Special Car—Pullman reservations should be made through Ralph Fordon, Fordon, Aldinger & Co., Penobscot Building, Detroit 26, Mich.

Pittsburgh Special Car—Pullman reservations should be made through M. M. Grubbs, Grubbs, Scott & Co., Inc., Union Trust Building, Pittsburgh 19, Pa.

St. Louis Special Cars—Pullman reservations should be made through Harry Theis, Albert Theis & Sons, Inc., 314 N. Fourth Street, St. Louis 2, Mo.

NOTE—Return Pullman reservations should be made at Hollywood. Representatives of the railroads will be at the Hollywood Beach Hotel to handle reservations.

Public Utility Securities

By OWEN ELY

Illinois Power Company

Illinois Power Co., with annual revenues of about $43 million, is the second largest of the five major systems in the State of Illinois. The company serves electricity and gas to areas in northern, central and southern Illinois, including six cities with a population of over 25,000. Total population is estimated at 720,000 in 271 incorporated municipalities and suburban and rural areas. The company's revenues are 79% electric, 20% gas and 1% steam heating and water.

Service areas include a large proportion of the finest farm lands in the state, producing corn, soybeans, wheat, livestock and dairy products. The milling of agricultural products is an outstanding activity, and Decatur is referred to as the "Soybean Capital of the World." Coal mining, oil production and refining, steel and iron foundries and metal-working plants, manufacture of railroad cars and railroad repair shops, cement production, etc., are leading industries.

The company is currently issuing 150,000 shares of preferred stock (Oct. 25) and 200,000 shares of common stock (Oct. 30). Both issues are "negotiated" deals, Merrill Lynch and First Boston handling the preferred stock and First Boston the issue of common (which does not involve subscription rights). The company's capital structure on completion of both offerings will be approximately as follows, estimating a net sale price of $30 per share for the new common stock:

	Millions	Percent
Long-term debt	$95.2	54
Preferred stock	22.5	13
Common stock equity (2,356,000 shares)	*57.3	33
	$175.0	100

*After deduction of reported intangibles.

The company's earnings record may be summarized as follows:

	Millions Oper. Revenue	Millions Net Income	Share Earnings on Common
1950 (12 mos. end. July 31)	$42.6	$6.8	$3.05
Calendar Years:			
1949	40.3	6.9	3.04
1948	37.4	6.1	*3.16
1947	32.7	5.3	3.67
1946	30.2	5.1	4.83
1945	29.8	2.8	2.05
1944	28.4	2.7	1.89
1943	26.7	3.3	2.64
1942	24.8	3.0	2.26
1941	30.5	2.8	2.17

*Before allowing for preferred dividends (preferred stock was partially converted and the balance redeemed during the year).

The share earnings of $3.05 for the 12 months ended July 31, 1950 would be reduced to about $2.60 on a pro forma basis, adjusted for a 42% tax rate throughout, for increased preferred dividends, and the larger number of common shares. However, President Van Wyck has estimated that earnings for the calendar year 1951, on the basis of a 45% Federal income tax and giving effect to current financing, should approximate $3.08 a share. He has also indicated that the company should receive substantial credits to lighten the application of an EPT tax so that even with a severe tax, the current dividend rate of $2.20 should not be in danger.

It is difficult to estimate earnings for the calendar year 1950 because of various difficulties which the company has encountered recently with regard to its transmission system. The proposed line from Bloomington, Ill. to Ovington was substantially completed earlier this year, except for a 10-mile gap, construction of which has been held up because of the strenuous opposition of some farmers who are presently unwilling to give the company a right-of-way. The company has started condemnation proceedings in a local court in Woodford County, but action by this judicial body has been extremely slow.

The result of this delay has been that the company has had to purchase a substantial amount of power from Commonwealth Edison Company, and for the 12 months ended June this purchased power cost Illinois Power some $600,000 after taxes (or 25 cents a share) in excess of what it would have cost had the company been able to use its own power. On August 1 a new contract with Commonwealth Edison was agreed upon as an interim measure until such time as the company's transmission facilities are completed. This contract is said to be costing the company $100,000 a month before taxes in excess of the costs it would incur if it could transmit a full load of power from its present generating facilities.

Illinois Power is currently selling on the Stock Exchange around 33, and pays $2.20 to yield about 6.7%. The price range this year has approximated 41-31.

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The Security I Like Best

ARTHUR WIESENBERGER
Senior Partner, Arthur Wiesenberger & Co., Members of New York Stock Exchange

(Electric Bond and Share Company)

At a time like the present, when the tax collector chips away relentlessly at the investor's dollar, tax-free income becomes something "devoutly to be wish'd." Tax-exempt stocks are rapidly becoming a rarity; and primarily because income from Electric Bond and Share promises to remain free from tax liability for a long time to come, it qualifies as my "favorite" stock. The non-taxable status of Electric Bond and Share dividends arises from the fact that the company has unrealized losses on securities of some $200 million (about $40 a share), which it is free to use to offset future income and/or capital gains of the same amount. Thus, in each year in which the company can sell enough securities to realize losses equal to its net income, dividends (considered a return of capital) would be non-taxable as ordinary income. Since it is the company's announced intention to utilize its backlog of losses so far as practicable for this purpose, future dividends may be expected to be exempt from income tax for many years in the future. The amount of the dividends received, however, must be applied to a reduction in the cost of the stock. When and if shareholders sell their stock above this net cost, they become subject to the regular capital gains tax.

Arthur Wiesenberger

EBS paid its last cash dividend (25c a share) in 1947. Subsequent payments have been in stock: 1/60 share of Carolina Power & Light (worth about 50c) in 1948, 1/35 share of Middle South Utilities (equal to about 52c) in 1949, and 3¾ shares of Texas Utilities per 100 shares of EBS (with a value of about 93c per share) in 1950 (recently declared).

Based on a price of 20 for Electric Bond and a value of 93c a share for the Texas Utilities stock about to be distributed, EBS is yielding 4.65%. Thus an investor in the 50% tax bracket would have to obtain a yield of more than 9% to equal the return from Electric Bond.

In complying with the provisions of the Holding Company Act of 1935, a process now substantially completed, EBS has retired all senior capital, and has become a "one-stock" company, with 5,250,358 shares of common representing the sole capital obligation. Subsidiary companies, numbering about 150 five years ago, have been greatly reduced through sales, distribution of rights, dividends and exchanges; principal assets may now be summarized as follows on a per share basis:

United Gas	$10.25
American & Foreign Power	11.11
Ebasco Services	1.90
Cash & mktble. secur. (net)	*4.18
	$27.44

*After allowing for value of Texas Utilities dividend.

Investment in United Gas

At the recent price of 18¾ for United Gas, Bond and Share's holdings of 2,870,653 shares show a value of $53,824,744, equal to $10.25 per share of EBS common. As the No. 1 seller of natural gas in the country, and one of the largest holders of natural gas reserves, United is the most dependable and profitable of Bond and Share's sources of income. (United Gas's dollar-a-year dividend prorates out at 55 cents per share of EBS.) Bond and Share's Amended Plan III, representing the final step in its program of compliance with the Holding Company Act, seeks retention of its United Gas holdings and the matter is now pending before the SEC. There has been some stockholder opposition by a group purporting to represent less than 8% of the stock of the company, and by one investment company holder. Divestment of its holdings of United Gas would deprive EBS of its main source of dependable revenue and its outstanding asset. While there might be no loss of current market value to EBS shareholders through distribution of United Gas, realistic appraisal of the EBS "package" would indicate lower value in the event of disposition of United Gas. Retention moreover [would] be of great potential benefit in Bond and Share's future plans and would continue the substantial tax benefits to stockholders.

Investment in American and Foreign Power

In my appraisal of Bond and Share's assets, I am considering the value of its American & Foreign Power holdings to be $58,334,662, this being the value placed by the SEC on the securities EBS was to have received under the SEC-approved reorganization plan of AFP in 1947. Plan was subsequently withdrawn because of financing difficulties, but by any standard of evaluation this $58 million figure appears conservative.

Electric Bond's investment in American & Foreign Power will fluctuate with the dollar prosperity of Cuba and South America, which at long last seems assured again.

An acceptable new plan of reorganization is expected for American & Foreign Power shortly. If a formula is devised which follows the pattern agreed upon in the last plan, EBS would receive about 65% of the new equity in Foreign Power. On an operating basis, Foreign Power is showing excellent results, with earnings in a consistent and rather sharp upward trend since 1941. Based on logical assumptions with respect to earnings, and Bond and Share's participation in a revised reorganization plan, EBS would eventually receive from its AFP investment an annual amount equal to 70 cents per share of EBS compared with 33 cents a share currently received.

Investment in Ebasco Services

In my estimate of the value of Ebasco, I have applied a 5-times ratio to earnings of around $2.0 million and arrive, accordingly, at a figure of roughly $10.0 million. This is equivalent to $1.90 per share of EBS. Ebasco, wholly-owned by Bond and Share, is slated to play a prominent part in the latter's future. Originally created to provide engineering construction and business consulting services to EBS subsidiaries, Ebasco in the past decade has extended its well-publicized activities to serve a wide variety of industrial and other nonassociated clients, who now contribute about 80% to gross income. Ebasco, with its proven managerial ability, manpower, experience and technical "know-how," should prove of strategic value to Bond and Share's future investment plans. One of its current projects involves the development and operation of a modern power system in Greece, and the company's volume of business should increase as a result of new defense preparations and E.C.A. activities throughout the world.

In 1949 Ebasco paid $1,000,000 in dividends to EBS, an amount equal to 19 cents per share of the latter's stock.

Cash and Marketable Securities

The net value of Bond and Share's "other assets," comprising net cash and marketable securities (common stocks of nine operating utilities, to be disposed of under the company's program), amount to $32,400,000. To be conservative in my appraisal, however, I have deducted from this amount $10.4 million as an allowance for payment of the former preferred stockholders' claim for the difference between the $100 at which the shares were retired and the $110 call price. The SEC has ordered payment of the 6% preferred shareholders' claim, plus interest, amounting to $9.4 million (disallowing a similar claim of 5% preferred stockholders). EBS is contesting the order, and final payment, if any, may be $750,000 or more below my allowance. Miscellaneous assets were recently contributing an annual rate of about 21 cents a share to EBS earnings, and the present direct income from all sources to EBS may be summarized as follows:

	Income
United Gas	$0.55
American & Foreign Power	0.36
Ebasco	0.19
Other assets	0.21
	$1.31
Less expenses	0.28
	$1.03

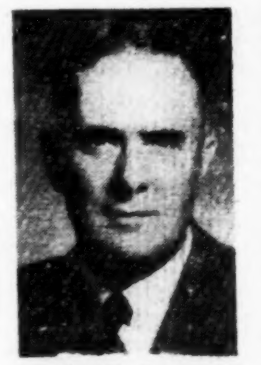
Conclusion

In 1946, Electric Bond and Share sold as high as 26¾—34% above its present price. At that point earnings were virtually nil, dividends were not being paid and common share asset value was substantially below its present level. At the present price of 20 it is 14% below its 1950 high of 23¼, and at a 27% discount from its asset value.

Other stocks may compare favorably with Electric Bond and Share in some aspects, but I know of none which combines its many favorable factors with a distinctive and prodigious tax advantage. Accordingly, the stock stands out as my current favorite, and I must put the burden on any and all others of finding one better—after taxes.

Jay E. Crane V.-P. of Standard Oil of N. J.

Jay E. Crane, who began his business career in the editorial department of The Chronicle after leaving Yale University, was elected a Vice-President of the Standard Oil Co. of New Jersey Oct. 20 following the retirement of R. T. Haslam. Mr. Crane came to the Standard Oil Co. organization in May 1935 as Assistant Treasurer after serving as a Deputy Governor of the Federal Reserve Bank of New York. He was elected Treasurer of Standard Oil in 1937, a director in 1944, and a member of the executive committee in 1949. In 1948, Mr. Crane was elected a director of the Federal Reserve Bank of New York.



Jay E. Crane

Continued from page 4

The Over-the-Counter Market in Stocks

counter." They were not listed on the Exchange. That term "over-the-counter" stuck in our minds, and in about three or four months we came up with the idea of publicizing and fastening that name to the over-the-counter business as we now know it.

That name has stuck fairly well in spite of the fact it is not a good name. To indicate how bad a name it is, I will just say that during one of the Senate hearings on the Securities Exchange Act, after I had talked for about 2½ hours to the committee, answering all their questions, a Senator asked: "Well, is there a counter some place in New York over which all you fellows gather and trade back and forth?" I think that indicates how misleading the term may be, but 22 years is a long time, and I think it will stick as a name. I don't know of any better name.

An over-the-counter transaction can actually be person to person, by mail, over TWX, telephone, or any other method of getting together on the price of a security, other than in an auction market on an Exchange.

Mr. Walker undoubtedly told you of the large number of issues that are traded over-the-counter. He has probably told you of the estimated value of the securities that are traded over-the-counter. I am not going to go into those details, but I will try to give you some of an idea of what my firm does, because I am in the over-the-counter business. My son once said that I am over the barrel most of the time rather than over-the-counter.

Be that as it may, my firm is an outgrowth of a firm that started way back in 1914, which I joined after World War I. I think we typify or have typified at various times the over-the-counter market to a greater or lesser degree. We used to have 35 salesmen in the 1920's and early '30s until about 1940, I believe, but now we do not have any.

We do not do underwriting; we do not have salesmen; we do not have any government bond business.

In those three respects we do not typify the over-the-counter business, but to the extent that we do a trading business, making markets professionally in over-the-counter securities, I believe we are fairly typical.

Tomorrow you are coming to my office and I hope you will enjoy seeing us in action. Ask all the questions you want to.

One of the girls there who handles our teletypes to our out-of-town offices told me she was going to stay home tomorrow. She said that if we wanted to get on-the-job training, which you boys who have been in Army and Navy will remember, she could give it by staying home. It would mean that someone would have to fill her place, and it would make it more interesting because there would be more mistakes and more corrections and more yelling and much more excitement for those who would be there. I said sure she could have the day off, but she better not take it.

You will see one girl standing in a circle of five teletypes—and handling what comes over those five teletype machines by repeating to the boys around the room, the messages that come in from the out-of-town dealers, then returning messages to those dealers. These messages are partly in code, so she has to translate them, and calls out to the proper trader who is handling the market, puts his reply onto the machine, and writes out tickets covering all the business that comes over the wires. At the end of the day she has to make out a summary and write out reports concerning the whole operation so we can properly keep a record of the profits and losses and split them appropriately with our correspondents.

You will see over-the-counter trading conducted in this way, and I think it is typical of houses with wire systems. I hope we have established ourselves well enough in certain securities by long years of trading in them, by advertising, by letter writing, by circularization, and all other things to establish our name in their minds, so that when they see a certain stock, they automatically thing of Troster, Currie and Summers—and call us!

Therein lies one of the biggest differences between the big board and the over-the-counter market. On the Exchange, there are one or two specialists in a stock. Some of them have a few more, but not very many. All orders on these stocks come to them to one central point. They execute these buy and sell orders as specialists and they do not have the competition that is afforded the over-the-counter dealer who must advertise and circularize and compete vigorously with dozens of other dealers.

One of the things you will see tomorrow is how a professional specialist operates. You will be able to watch and hear, for example, one trader handling Dumont Laboratories, Class A, commonly referred to merely as Dumont. You may hear someone call out "Dumont 72." That means that Wire No. 72 (which is one of our private wires to a Stock Exchange house) wants a market in Dumont. Our trader quotes it 18¾-19⅛. He is willing to trade 100 shares. No. 72 may say, "We buy 100 and we want 400 more." If he is on the ball, the trader knows where he can buy 400 or 500 shares of stock at 19 or if he thinks the market might go up a little, he probably has already bought 500 shares! So he sells No. 72 the 500 shares, buys the stock in, and completes his trade.

Why doesn't the trader quote the market 18¾-19¼ instead of 18¾-19⅛ and insure a better chance of making a profit? Because there are 15 other people who are quoting the market in Dumont, and if he has any wider spread than anyone else, he just isn't going to get the calls the next time. Competition!

Why doesn't he say, "I will only sell you 50 shares"? Well, the house doesn't want to be known as making a small, 50 share market. If you do, they won't bother to call you on anything over 50 shares!

Why doesn't he make a one-point market, 18½ or 19½? It would be easier if people would trade on that, and you would have a full point to work with, but the market spread closes down in direct proportion to the activity and to the volume of trading.

Finally, as as been explained to you, I am sure, by the people who have talked to you about the Stock Exchange and the Curb, one of the differences between our over-the-counter market and the listed market, is that you cannot have a good auction market, a listed market, unless the corporation is fairly large, is of national prominence, has enough stock outstanding to insure continuity of interest, and there are a certain minimum number of stockholders. In the over-the-counter market, any stock or bond may be bought and sold. All that is needed is a buyer and a seller and an agreement as to price!

Now, in the speech that I would have written if my Army call and the mixup on dates had not interferred, I would have quoted from an article which I wrote in 1939, "Exchange Markets As We Know Them in This Country," thus: "The auction market is a focal point. Buyers and sellers come together through their representatives, and are matched at a fixed rate of commission. There can be no argument, however, that the technique of the Exchange cannot successfully deal in some securities having the following characteristics: Lack of speculative interest, small capitalization, limited distribution, high price, desirability for portfolios in institutions such as insurance companies which often have to negotiate a sizable block at one price."

[Little did I know in 1939 that in 1949 and 1950 insurance companies would be buying whole issues of securities!]

"A danger to the public arises when Exchange technique is applied to restricted-volume type of securities as the operations of the over-the-counter market is impeded by published quotations, and the buyer and seller are not brought together. The reason for this is that an essential part of the over-the-counter market in this type of securities is a process of merchandising consisting of intensive efforts by way of circulars, telephone calls, newspaper advertising, and so forth to bring together buyer and seller who otherwise would not get in touch with each other."

That merchandising function is probably the most important thing that I will mention here for the moment in comparing the over-the-counter market and the listed market. Rather frequently, when a large block of a listed stock comes into the market, a "special offering" has to be made in order to dispose of the stock. The Exchange has various names or various types of offerings of that kind, where larger commissions are offered or a special price is made after the close of the market. Thus, the actual sale is completed, in many cases, in the over-the-counter market.

Now, in the over-the-counter market, which you will see tomorrow, you find this trader making a market in Dumont and perhaps 25 other securities. You will find him trading in a lot of things of which you never heard. I imagine Mr. Walker told you of the "cats and dogs" and the various classifications of some of the 15,000 or 20,000 issues on which over-the-counter dealers have calls in the course of a year. You will find that trader referring every once in a while not only to the National Quotation pink sheets that you have seen or to the quotation books, but saying, "Just a second; I will check." What he is doing is checking with other dealers in our same line of business.

If you were to take up merchandising, you would find that there are such things as price shoppers. In other words, Mr. Macy checks Mr. Gimbel to see whether he is selling an orange juicer at $12.39 or $11.98, which will make a difference in how Mr. Macy prices his product. That is true with us. Competition!

I am not going into so many rosy-hued details that you will ask me for a job immediately after you leave the office tomorrow, but I should like to impress upon you that in 30 years I have never found anything that I thought I would like to do better than to sit on the wires and match wits and money with the fellow at the other end of the wire, and at the same time perform a public service.

I know that we are performing a public service in the making of markets. A thin line divides greed from public service and divides that which is within the law and that which is outside the law. Following the right line indicates whether or not you can build up within your organization that which the Army calls *esprit de corps* and which the Street calls a good reputation.

If you do not have a good reputation as an over-the-counter house in the city, in the country, your business will be limited to those people whom you can bring in by direct contact rather than those sent in by your friends. I can attest to the fact that there is nothing more valuable to any firm than its good name. I imagine you know that here in Wall Street you can buy a $5 million order and sell a $5 million order, and it may be three or four days before the trades are ever reduced to writing and mutually exchanged. Still no one would renege on such a transaction. The very idea of someone reneging, while not always fatal, certainly inhibits growth in the way that most of us in Wall Street like to think of growing.

How important is this public service that we render? Why don't you list everything on a Stock Exchange? Well, why don't we sell all the mules in the country on an auction block? Why doesn't Macy's have auctions all the time instead of just having something on hand to sell? The analogy is not complete, but I have used it before the many Committees and they seem to get a general idea, that if you want to have reasonably close markets in the inactive securities, you have to get more than a fixed small commission for doing the work. There is an old saying that I am sure you have heard: "The laborer is worthy of his hire."

There are certain trades which I do for nothing. They are what we call give-up trade. I make no money and I take no commission for trading perhaps 1,000 shares. Why? It is building good will. I hope when the trade is over, I have made two friends. I have dropped out of the deal and put them together. My name doesn't even appear in the transaction, but I have helped in the buying and selling that somebody wanted to accomplish and for which somebody else is getting a commission.

It may be very little work that I have done on that, but through the good will and the principle "You scratch my back; I'll scratch yours," I will get some business out of either or both of those houses for which I have done work.

There are other times when I have been paid as much as $5 a share for buying 100 shares of stock at a price of 25, let us say, and I could name similar instances where even with a price like that, I have made no money because of the time and advertising necessary to do the work.

I am presently buying a stock for a trust that sells around 15, and I am getting 25 cents a share for buying it. I can't tell just how much my income would be on that. I haven't figured it since I returned from summer training, but it hasn't been large. Most of the stock is held in lots of one to 25 shares. At ¼ of a point, 25 shares would amount to about $5. I have circularized that list of stockholders 11 times.

Since the last time I went away to camp, I think I bought 18 shares. Figure my profits. It is not good business for me to do that. On the other hand, I have hopes that the same company will give me more business. I volunteered the 25 cents; that is what worries me. Perhaps I will make ½ point the next time, or maybe through those trades we will find someone who wants to buy something that we have for sale. There are any number of factors that enter into the reason why we do the business for 25 cents a share, even though I make very little money in the long run on the deal.

I see that I have two speeches here that I wrote some time ago. One is on the Securities and Exchange Act of 1934, and one is on investment management that I gave to a Columbia University group. That is dated 1939. This shows how wrong I was on many of these things. At that time I said there were only 10 dealers in Vermont. Now there are only seven. But I will not start on my prepared speeches at this late date.

There are three types of trading departments. Sometimes they are all thrown into one, but generally they are separate. The first is the professional operators. Some of us look askance when I describe professional operations, but that is my type of business—entirely professional. We are entrepreneurs. We are looking for places where we can make money and still perform our public service.

The second type is the servicing of sales organizations. Some organizations do not have a trading department that is professional in character, only a department that is, an adjunct to their sales organization. Such a department handles securities which the company has underwritten, or in which they have a continuing interest, or a security which a salesman brings in from a customer for sale or exchange.

The third type is a combination of those two. I believe you have visited the First Boston Corporation's trading room. There you find a group that is a combination of the two mentioned above.

We have found one thing to be true in our own organization: that it is almost impossible to be a service man and a trader at the same time. A service man will call up an institution and say that there are ten bonds available or 500 shares, or he will keep a prospective customer informed as to the trend of a market in certain securities. If, in addition to servicing he also has the responsibility of making markets in other securities, he will be pressed for time. For, while he is making the call to advise that a certain stock is moving, someone else will ask for a quote on another stock. He will have to give up his first call for the moment, and get his mind on his own trading. It is the constant interruption of ideas, of trying to make a profit for yourself and at the same time keeping someone informed on the course of the market that is difficult. The two just do not gibe. They are always at cross purposes, and as soon as you get into one, I advise dropping the other.

What do I mean by maintaining a market? I said a little while ago that we allocated X dollars to a trader to make markets. I will try to cover several ideas on this.

For instance, we give one trader a $50,000 position, let us say, and ask him in what stock he would like to trade. It is just as simple as that. He will select certain stocks in which others in the office are not trading. Suppose he picks out 25 stocks in which the others in the office are not trading and about which he has certain basic knowledge. He will put the names of these securities in the National Quotation sheets hoping thereby to obtain calls from houses, either competitors or Exchange houses who might be classified as customers or anyone else that might receive those sheets. By sending out circulars, by telephoning to prospects, he develops bids and offers which result in trades.

It is not mandatory, however,

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The Over-the-Counter Market in Stocks

that he continue to trade in those stocks forever because if activity wanes in a stock, he will drop it. As a new security becomes active, we will pick it up and assign it to a trader to handle.

A new airplane issue, for example, would be allocated to a man who was trading in other airplane securities, generally speaking. A public utility issue would be given to the utility trader, and so on.

When I said that we allocated $50,000 to a trader, that means that either his long position or his short position must not exceed $50,000 worth of stock. He could have 5,000 shares of one stock at $10, and use all that money that way, at the same time being short on 5,000 shares of another at $10. Thus he would still meet our requirements.

If he did this, however, he would have no money with which to go long or short in any other security because he tied it all up in two stocks. Therefore, he will spread his position around over the stocks in which he is trading, taking the biggest position in those which he figures he has the best chance of active trading or of making money by appreciation or depreciation of price.

I have mentioned Dumont so let's go ahead with that as an example. Suppose he were going to trade in Dumont.

He has to decide promptly upon the first call of the day how he is going to quote. He says 18¾-19⅛ on Dumont and someone sells him 100 shares. He immediately has $1,875 worth of stock. Suppose he sells it at 19⅛ on the next call. Your minds are getting used to ⅛s and you know he has made $37.50 less transfer taxes.

If he quotes the same way to the next caller, who says: "I sold you 100 shares and I have 400 more," then he has to make up his mind promptly as to what to do. His course of action depends on many things—most of which are born of experience, whether he will "buy the bundle" or drop his bid for the remaining 400 shares is up to him—if he buys it, he must have a pretty fair idea as to where he can sell all or a part of the 500 for after all, he has only $50,000 capital to use—and he has other stocks that he may want to buy. He must not have more of a dollar position than we have allotted him. During the day he may go over, but when he is through for the day, he must not have more.

Suppose, in the case I have just mentioned, he drops his bid ⅛th. Then he gets on one of the wires, St. Louis, for instance, and says, "Offer 100 shares of Dumont to so-and-so and so-and-so at 19." He does the same on other wires, Pittsburgh, Cleveland, etc., and that bid is offered over the country to branch offices or those who have wires to other offices. We have six of those wires which I will show you tomorrow.

Now, suppose one of the wires comes back and has another seller before the trader is able to sell any. I have seen it happen where you would buy 1,000 shares or more of stock before making a single sale. You try not to be influenced too much by what you think of values as against what is in the market because sometimes your thinking and your pocketbook do not agree. If you overbuy, you can certainly lose your well-known shirt.

If he sells the 100 shares, then he makes a profit less the taxes. He does that all day interspersed with calls on these other stocks in which he is interested. If he doesn't have a call on his other stocks he is supposed to initiate calls to people based on previous information or orders. Or, it may be that he wants to go short of something in the hope that he will be able to buy it back at a profit later on. If so, he will offer stock for sale even at the bid price of the market, thus going short at the bid price of the market.

How does he make any money on a short position? Only by buying stock at a price below that at which it was sold. That may sound easy—just drop the bid by ¼ or ½ or something? I mentioned that there is a thing called competition, and there are very few houses that would give you another call if they find on repeated occasions that you have dropped your bid as much as ¼ or even ⅛ of a point below what had been previously quoted. You can take my word that these orders are pretty well shopped around. Do you make a profit on all short sales? By no means—just as you lose on long purchases, you can lose on long sales.

In the over-the-counter market, there isn't one point to which all the orders come because they are not active enough to have an auction market. However, many are active enough to be distributed among a dozen dealers, all making competitive markets, comparable in spread between the bid and offer.

By the interplay of the calls for markets, the trader will make up his mind as to whether he will leave his market where it was, drop it, or raise it, again depending on judgment as to the future course of the market. He keeps in mind that he must maintain a firm and a fairly close market in order to get the business. He must also remember that we are performing a public service and have a desire to keep a fairly active and orderly market in the various securities in which he is trading.

The trader usually maintains a firm market; that, is he quotes prices at which he will buy or sell a given amount of stock. When he is quoting, he does not know whether the caller wishes to buy or to sell. The over-the-counter trader maintains a market as close as possible and as large as possible in order to encourage people to call him again with whatever orders he may have.

Maintaining a market in the inactive securities is one of the primary functions of the over-the-counter business. Why is it necessary that securities once sold to the public by a corporation should have a market at all? Why worry about a market? Sometimes the underwriters wish that all the original purchasers of a security **would** hold onto their stock. But it also happens that someone wants to buy a new refrigerator, or a new house, or something, and they have to sell stock they bought only a week ago, a month ago, or a year ago, or they are afraid of the Korean situation, or they would rather have cash than the stock, or for any one of a dozen reasons, they want to sell. The bootblack may come in and say, "Gee, I hear that Columbia is a lousy stock," and the other fellow may go out and sell his holdings of that stock!

That isn't as silly as it sounds. You may have heard of the elevator operator down here who lost some $200,000 of other people's money because he gave tips. Well, what does an elevator operator know about the market? In his defense, it is said that no one knows more about the ups and downs in Wall Street than an elevator operator! He got bullish, and other people got bearish, and he could not get his customers out.

My firm acts both as brokers and as dealers, along with practically everyone else in Wall Street. There are very, very few houses that are exclusively brokers or dealers. One thing to remember about being a broker and a dealer—this may not have been pointed out to you, but if you get nothing else out of this discussion it will have been worth while—you can't be both on the same trade!

In other words, if you are in my business and are long 100 shares of Dumont stock and a customer approaches you and says, "I want to give you a commission order to buy me 100 shares of Dumont and will pay you a Stock Exchange commission for doing the business for me. How is the market quoted?" You quote 18¾-19, and he says, "I will take the 100 shares at 19." You cannot charge him a Stock Exchange commission. The doors of jail are waiting if you do because as a broker, you are the agent of your customer—in Latin, I believe, you are his *alter ego*—and he is hiring you to do something for him.

If you want to sell him that 100 shares at 19 net, you can do so. You can say, "Well, Joe, I will sell you this at 19 per share net to you. There you are a dealer and your confirmation to him will so state. That is one of the things about which we must be very specific in our business.

On a Stock Exchange order you expect the house executing the order to act as a broker, but in an over-the-counter situation, the houses can be either a broker or a dealer.

On a brokerage transaction, the confirmation will read something like this: "We have this day bought for your account and risk 100 shares of Dumont at 19 plus our commission of $—, total, $—."

If you have acted as a dealer and sold stock directly, your confirmation will read something like this: "We confirm sale to you this date of 100 shares of Dumont at 19 net." The word "net" is rather important. It isn't always used, but we always use it.

In other words, when you act as a broker or as a dealer you must so specify. One of the greatest helps that the National Association of Security Dealers has given the securities business, is the insistance upon correctly confirming trades with customers.

How much can you make on a trade with an individual who does not know the price of a stock like Dumont? Could you sell the stock to him at 25? You probably could. He doesn't know the price. He is a greenhorn, not a professional. There isn't any law that says you couldn't sell it to him at 25.

However, it has been established—it is not a rule, but a suggestion—that 5% of the value is the maximum you should take as a profit on a sale of that kind. It is referred to as "the 5% rule" of the NASD and it has raised quite a storm because many of us find that it costs more to do business than 5%. While I am against anyone limiting me to 5%, I believe the laborer is worthy of his hire and that I should charge enough to make a profit. The average you will make will be far less than 5%, even less than 1%. We do have restrictions, and, of course, our trade association, the New York Security Dealers Association, has committees to which protests can be made. We have quotation committees, and we try our best to police the whole over-the-counter field for irregularities such as overcharging on the part of salesmen who are overambitious.

I understand that you have been told about the Frear amendment which proposed that the proxy provisions be applied to all companies having 300 stockholders or more, and $3 million worth of assets or more.

The position I have taken differs a little from that of the New York Curb Exchange. They have a department which is called the Unlisted Security Department, and their securities are admitted to unlisted securities trading.

In the beginning of the SEC when the Maloney Act was passed, it was apparent that they wished to kill all admitted-to-unlisted-trading privileges on the Curb Exchange. That was not done, however, because it would have killed the New York Curb Exchange probably. So it allowed the Curb to hold on to all of the stocks which were then admitted to unlisted-trading privileges, but put down rather strict rules regarding any further admissions to unlisted-trading privileges. There have been very few that have been admitted in that manner since.

The place where I would clash with the ideas of the Frear amendment and the New York Curb would be on the point of making a large number of over-the-counter securities available for admission to unlisted-trading privileges on the Curb by requiring companies to furnish information which is presently necessary under the SEC. That is selfish on my part, yes, but it is my belief than many of them should not belong on an Exchange under any circumstances. It is also my belief that the management of a company should have the final say as to whether or not their stock should be admitted to trading on the Exchange.

One other very important function of the over-the-counter business which I haven't mentioned is the distribution of blocks of securities through retail channels. Some individual or organization has a block of an inactive stock which they wish to sell. By negotiation a price is fixed on the block. Then dealers all over the country are contacted and sales are completed.

Some of those houses would retail, and others would buy for their own account in the belief that the stock was cheap marketwise.

I have rambled unmercifully, but if anyone wishes to ask any questions I will be glad to try to answer them. Tomorrow morning I will do my best to be free when you come over to the trading room, and I shall try to explain something about what is going on. I hope that the market is active so you can get a good idea of it.

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A Balance of Power for Peace

strength. Japan received a diluted dose.

In retrospect, it is amazing that the British should ever have agreed to it no matter how great the American pressure was. For, over the centuries Britain had lived by the balance of power and had waged wars to maintain it. Moreover, Britain—as Mr. Churchill's advocacy of attacking the "soft underbelly of Europe" showed—must have been aware of the Russian danger long before the war was over.

In the Far East our resolve to destroy Japan—and to invite Russia in at the kill after we ourselves had the situation well in hand—was even more amazing and just as disastrous.

We were, no doubt, influenced to a considerable degree by our hopes and faith in the United Nations as a restraining force on future aggression. We failed to realize that the United Nations could be effective only on the historically doubtful assumption that all of its veto-equipped members would sincerely cooperate in, and carry out, the noble purposes set forth in the Charter, or if there were a balance of power among the major member nations sufficient to discourage adventures of aggression or conquest irrespective of any exercise of the veto.

The most momentous fact of the political world of today is that the Russian Empire now possesses such power and position that it cannot as matters now stand be adversely affected by any possible coalition of European or Asiatic nations. This power and position are not wholly of Russia's own creation. Furthermore, they are relative, not absolute. They came to Russia largely as a result of the destruction of her formerly powerful neighbors. They will remain with her as long as those states remain prostrate and will be shorn from her when those states are restored to strength.

I submit to you that in the destruction of Germany and Japan and in the headlong demobilization of our military establishment, we upset the balance of power to such an extent that unless it can be restored promptly and effectively, war with Russia is likely. However, I also take the liberty of suggesting that, in my opinion, it can be restored if we act promptly and effectively. And, that if and when it is, war with Russia is unlikely. To restore a balance of power in time to forestall war with Russia will, however, require vigorous and courageous action, action going to the heart and core of the problem.

III

How, then, restore the balance of power? What can we do to raise our presently depressed side of the scale?

Well, we can continue trying to do so through our own resources, supplemented by those of the British Commonweatlh and the nations of Western Europe, while keeping Germany and Japan in an enfeebled condition. That is a pretty big contract in any circumstances. To accomplish it from another continent thousands of miles away vastly multiplies the difficulties. It involves the hazard that the Germans and Japs, despairing of regaining national dignity, might come to view us as oppressors and turn into the Russian orbit. In any case, successful or unsuccessful, such a course would impose upon us a long and staggering economic and military burden. While the views of the British Commonwealth and of the nations of Western Europe appear to be in harmony with our own, their practical and material contributions toward halting Russian aggression have necessarily been moderate.

Assisted by large loans and grants from this country, there has been considerable economic recovery in Western Europe. Whether this recovery has reached the point where these nations can immediately devote substantial sums to rearmament is open to question. Furthermore, while their inclination to resist Russian aggression seems quite clear, it is equally clear that the firmness of their resolve to do so will depend to a considerable extent on their conviction as to their chances of success. We must not forget that the prospect looks a bit different

when viewed down the muzzle of a Russian gun than it does from 3,000 miles away. Thus, any policy which deprives us and the other nations determined to resist Russian aggression of the support of the Germans and Japanese, or which would turn them toward Russia, would seem to lay upon us an unwise and unnecessarily heavy burden.

A better approach to the problem seems to me to lie in a simple reversal of what—certainly in the light of hindsight—look like rather serious mistakes. This would involve (1) restoring our own military power to a point which we can, as, indeed, we will have to, carry for a long term of years without crushing our economy; (2) aiding in the restoration of the military power of our allies, and (3) bringing Germany and Japan back into the family of nations as counterweights in the balance against Russian aggression. This, it seems to me, is a more possible and a more hopeful course.

We should plan the restoration of military power not on the supposition that, in the pattern of medieval chivalry, Russia will offer us the choice of weapons, but on the very opposite theory, that she will fight us where and in the manner that we are least prepared for. Our Korean experience has been instructive along these lines. Faith in successful push-button war is no longer so strong as it was in some quarters.

In step with our own rearmament should be the rearmament of the other North Atlantic Pact Nations and of those nations whose security in the Far East is also in jeopardy.

Prompt rearmament is essential not only against the contingency of open and all-out war with Russia, but as a measure of precaution—an insurance policy, so to speak—against obstructive measures that Russia might take or stimulate during the highly critical period pending the restoration of Germany and Japan to positions where they can protect their own national security and their legitimate interests, burdens which at the present time, as occupying forces, we are obligated to carry.

Doubts have been expressed as to the willingness of our people to continue to bear for long the high cost of a large military establishment. Such doubts are justified if our rearmament is to be based on scareheads and emergencies, alternating with assurances that peace is near at hand. But such doubts are not justified if our people become convinced that such rearmament is a fundamental element in a clear, sound and strong foreign policy that has a reasonable chance of succeeding.

It is encouraging to note that at last we seem to be recognizing the facts of international life and to have started on a course aimed at restoring a balance of power. If our course remains steadfast, it will be confidence-inspiring. We have begun to rebuild our own military establishment. We are, perhaps the right word to use is "exhorting," the North Atlantic Pact Nations to shoulder their necessary and appropriate military burdens, aided by substantial contributions from us. We seem even to be drifting towards peace with Germany and Japan. An abortive start toward a peace treaty with Japan was made three years ago. It floundered on the reefs of "procedural difficulties" and apparently remained stuck fast there ever since. On Sept. 15 President Truman stated publicly that he had "authorized the Department of State to initiate informal discussions as to future procedure." This subject was also mentioned in the President's report on his meeting with General MacArthur. In the same statement, President Truman said that "we have pressed the U.S.S.R. for an Austrian treaty and we are exploring the possibilities of ending the state of war with Germany." A few days later, the Big Three foreign ministers, after conference amongst themselves and with the representatives of the 12 North Atlantic Pact Nations, announced certain concessions to Western Germany.

All that is a start in the right direction. But it is only a start. Germany and Japan in my judgment should not simply be granted concessions; that smacks of trading against the Russians. They should be made into going concerns. If we have in fact adopted the policy of making peace with Germany and Japan, we should make that fact clear to our people and to the world, and we should focus on it—not drift but drive toward it—without wasting too much precious time "exploring possibilities" or fussing with "procedure difficulties." The urgency is great and the time is short. If we are to make peace with Germany and Japan, let's do so promptly and magnanimously, with a view to making these former enemies our friends.

I would like to distinguish clearly between a program which looks toward rearming Germany and Japan on the basis of opportunism and expediency, and the program which I suggest—which is to restore these two nations to positions of responsibility and respectability in the family of nations. The former is a make-shift on the purely military level. The latter is a long-term political program for peace.

Consider the effects of so doing—not soon, not in the distant future, but now, tomorrow! The Russians, who have thus far called the tune on the international stage, would immediately be thrown completely on the defensive. By a single play, we would have trumped the false propaganda which Russia so assiduously has been putting out in Europe and Asia. But more: The Russian Bear would discover that the primary forces which contained him in the past were again in being, both in the West and in the East. If then he continued to disturb the peace, he would be faced with the possibility of a two-front war—the age-old nightmare of every Russian statesman and marshal.

The way to make peace is to get busy and make peace—real peace, not a pussy-footing, weasel word, technical peace under which Germany and Japan are to maintain feeble military establishments, disguised as so-called police forces which we falsely hope will do our bidding and fight our battles for us. That would be taking a leaf from Russia's book and attempting to reduce them to the status of satellites. It would fool no one but ourselves. Everybody knows that cops armed with tanks instead of nightsticks are intended for other purposes than maintaining internal order. We cannot expect to treat the manhood of Germany and Japan as pools for the recruitment of great foreign legions in the service of our own political objectives.

Does anyone imagine that either the Germans or the Japanese, under such an arrangement, would be dependable or effective soldiers? Does anyone seriously believe that under any arrangement the Germans and Japanese will fight our battles for us? Certainly not. But they will fight to defend their own homelands and their own national security and their own interests. To the extent that these are in harmony with our objectives in restraining Russia, they constitute an effective counterweight to the present serious imbalance.

Is it likely that the Korean incident would have occurred if Japan had been restored to a strong and independent condition? How long would the Russian sword hanging over the head of Western Europe continue to dangle if Germany were on her feet? These potent and industrious people could, if restored to full nationhood, take off our shoulders a large measure of the political, economic, and military burdens that we are carrying and, as things now stand, will have to continue to carry indefinitely.

The peace that I suggest with Germany and Japan is a real and true peace; a peace which will restore these nations, under decent and enlightened leadership, to positions of equality in the family of nations; a peace under which these strong and productive peoples—70 million Germans and 80 million Japanese—can regain their own self-respect and the respect of the peace-loving nations of the world; a peace under which they will be promptly admitted to full membership in the United Nations and given seats on the Security Council. In my opinion, once Germany and Japan have been so restored, the Russians will recognize the futility and danger to them of their present tactics. Then, and then only, will we be able to make a tolerable and enduring peace.

IV

Finally, let us consider certain specifications of the peace which I propose. First of all, we should see that Germany is firmly tied into the other nations of Western Europe and becomes a full partner in the North Atlantic Pact. The importance of this point cannot be over emphasized. We must not permit Germany again to get into a position where she can play the West and East against each other as a preliminary to attacking one after the other. The Schuman Plan offers real assurance in this direction. The most effective way to prevent Germany from making another attack against Western Europe is to consolidate her heavy industry in the Ruhr with that of Belgium, France and Luxembourg under an autonomous authority controlled by the nations of Western Europe.

In the peace treaties with Germany and Japan, we can embody appropriate protective provisions to which they must adhere. For example, we can put limitations on the size and nature of their armed forces. We can call for periodic reports and can reserve the right of inspection to ourselves or to the United Nations. If, then, we and the other members of the United Nations continue to see that these provisions are lived up to, we can greatly minimize such risks as are involved.

During the transition period, while Germany and Japan are recovering to the point where they can protect themselves and their own interests, we should, and in fact, will have to maintain strong forces in those two countries—ironically enough, not essentially to punish or control a former enemy, but to restrain a former ally. However, just as soon as Germany and Japan are able to protect their own security and to take care of their own affairs, we should withdraw our troops, retaining only such military forces and establishments as in the interest of mutual security are freely and voluntarily accorded us.

I fully appreciate that there are risks—and great risks—in a restoration of Germany and Japan. A restored Germany, particularly in the enfeebled condition of the present European nations, might obtain that ascendency which the Kaiser and Hitler sought in vain. In the disturbed conditions of the Far East, a restored Japan might again embark on a career of conquest. We can thoroughly understand the fears of the Western European and the Far Eastern nations along these lines. However, we are not at the moment sitting pretty with an opportunity to make a simple choice between a risky course on the one hand and one that involves no risk on the other. We have to choose among courses all of which are risky. "When constabulary duty's to be done, the policeman's lot is not a happy one." The alternatives may be tough and dangerous, but at our peril, we must make the right choice. It is a question of balancing risks, or, to use a phrase recently current, "calculating" them.

Yet, it is important to note that the new balance of power here proposed differs radically from anything in the past because the United States, now being ready to shoulder its obligations in the matter of maintaining world peace, would openly and actively be part of it. That will make a great difference. It has often been pointed out that had Germany in 1914 known that both Britain and the United States would actively enter the war against her, she would not have embarked on her adventure. It cannot be doubted that our own isolationism of the '20s and '30s, including both our disarmament and our ill-fated neutrality legislation, powerfully affected the calculations of both Hitler and Japan. The fact that the United States is now irrevocably committed in world affairs will, in my judgment, have a profound deterrent effect on both Germany and Japan in the future. Remaining strong ourselves, we can afford to have strong allies.

If we restore Germany and Japan, we must do so with our eyes open to the risks involved, but firmly determined that we will not again, as we did before, permit them to build up their military power for aggression, and be prepared, if need arises, to tip the scales against them.

With a fairly even balance of power in the world, maintenance of peace will require neither unduly onerous economic nor military burdens on our part. We might only need to learn and practice the international art of "winning friends and influencing people," a field in which our activities to date have not been conspicuously successful.

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I recognize that in order to make such a peace with Germany and Japan, the wish is not the deed. The process is fraught with difficulties and complications. Even if I knew all the solutions, which I don't, time would prevent their recital. I do not, however, consider these problems either as so difficult or so vital as to deter us from pressing ahead vigorously. We should bear in mind that however formidable these "procedural difficulties" may loom at the moment, if war with Russia were to break out they would instantly become entirely academic.

The question naturally arises as to what effect such a program as I have suggested would have on the United Nations and on our relations with that organization. We were its main sponsor and have been its main supporter. In spite of many disillusionments, it remains a principal depository of our hopes for world peace. Thus, we most certainly should not lightly adopt a course which would be injurious to the United Nations or would prejudice its present usefulness and future prospects. The course that I have suggested would not have that effect in my opinion—quite the opposite. I have not proposed and do not propose that we commit ourselves to restoring a balance of power amongst the nations as a substitute for the United Nations. On the contrary, I believe that we should continue to support the United Nations in every possible way. In line with that policy, the restoration of a reasonable balance of power in the world, including the admission of Germany and Japan as full partners in the United Nations with seats on the Security Council, would constitute the greatest practical step forward that could be taken toward strengthening the United Nations and making it a powerful and effective instrument for the maintenance of peace.

The United Nations, like the League of Nations before it, is an expression of the longing of mankind for a new and better and more effective means for maintaining world peace. I yield to no one in the depth and sincerity of my hopes and longing that it may succeed. But I submit to you that practical progress toward its noble objectives is more likely to be achieved by supporting these high purposes with the proved experience of the past. And so, as we hopefully continue the long and difficult struggle to transform the world from what it is to what we think it ought to be, our efforts will be more real — more practical — more effective, if we ground them on the firm foundations of past experience.

In making these suggestions, I am not forgetful of the tremendous debt that we owe to hundreds of thousands of our boys who made the supreme sacrifice to defeat Germany and Japan; nor of the many other millions who died or suffered tortures even worse than death at the brutal hands of the Nazis and Japanese. But I doubt that it would be their wish that we follow policies of revenge and vindictiveness which would sentence to death other millions of young people and end in the destruction of all that they regarded as sacred. They who were the greatest victims of intolerance would, I think, if they could speak, be the strongest advocates of tolerance.

Many I know will object to the course that I have suggested, but none more vigorously than the Russians. The timid among us will assert that such action would force Russia's hand and might provoke her to open war. I doubt it. Russia's response wherever we have taken strong measures—and most notably in Korea—does not support this conclusion. The scared will say "Let us attack them first" in what has been called a defensive war. I doubt that we will ever do that. We cannot base our course vis-a-vis Russia on timidity or on fright. Nor can we solve our problems by appeasement, or by threats or by oratory or by exchanges of letters or in present circumstances, by personal conferences with Good Old Joe. What we need is clear, forceful and consistent policy and action based on a sound estimate of the situation. President Truman's firm and realistic decisions in the early stages of the Korean aggression were pitched in the right way.

Above all we cannot achieve lasting peace by continuing to live in a kind of rosy or should I say "reddish" idealistic haze. We must come to grips with the stern realities of power, harnessing it firmly to the cause of justice and world peace.

I do not claim that if we take the steps that I have suggested, we will immediately transform the world into a place where, free from care, we can live happily ever afterwards. I do claim, however, that by taking the course proposed, we can create world conditions where, with eternal, intelligent and courageous vigilance, we can, as a practical matter, win and preserve a just and lasting peace—a peace which will bring in its wake those material and intangible blessings which alone make life worth living.

I have attempted to state my views clearly, and I assure you, they have been stated modestly, for I know very well that, in these matters, there is room for wide differences of opinion among patriotic and well-informed people. Nobody knows all the answers. Even though many of you may not agree with me, I am grateful for the courteous attention that all of you have given to my remarks, and thank you for it.

Continued from first page

As We See It

What the world appears to be drifting into (probably without fully realizing it) is a "balance of power" state of affairs, long familiar to students of world politics, but embracing not simply European powers and possibly a few other peoples, but virtually the entire globe.

Should this development continue unabated for sufficient length of time and then degenerate into a full-fledged conflict, we might very well for the first time in history have a real "world war" on our hands. The true inwardness of this situation is in all probability recognized by the experienced heads of world politics, but it seems not to be in this land of ours—at least not among the more articulate political leaders or among most of the public commentators. The fact seems to be that most of these appear to take great stock in current notions that such vague ideals as "freedom-loving peoples," "real democracy," "anti-aggression" furnish a key to a new kind of world in which all peoples can and will live according to the golden rule.

Misleading Terms

Of all these terms, the one most likely to lead us astray and into serious difficulty at one time or another is, perhaps, "freedom-loving"—unless it is "peace-loving." Of course, all men probably at all times in history have been peace-loving, and yet wars have followed wars throughout the history of mankind. Evidently, whether they realize it or not, men generally have valued a number of things above peace, and there is little doubt that they do so at the present time. One of these things is freedom from foreign domination or rule. It is in this sense that the term "freedom-loving" has real meaning, only in this sense virtually all men are "freedom-loving," the free man and the slave, the totalitarian victim and the citizen of a democracy (in the older and real sense)—yes, even Hitler, Mussolini and Stalin.

But it is not in this sense that a great many employ the term "freedom-loving." What many of them have in mind is love of liberty of the individual within each country to mind his own affairs and to look out for himself as he sees fit, so long as he does not infringe the right of his neighbor to do likewise. It is this connotation which is constantly employed in international arguments—since the other would hardly have much meaning — and, although we do not like to say it or even to admit it, it is freedom in this sense that has lost caste and popularity almost the world over during the past two decades or so. We should, of course, not readily admit that we are any less devoted to the cause, but one need but look at what we have done since 1933 and at what wins elections, to find that our thinking has strayed very, very far from that of Washington, Jefferson, Lincoln, and all the others down through the decades.

But if we have been turning away from the earlier freedom-loving attitudes of mind—albeit without admitting it—a great many other peoples of the world either have never known what liberty in this sense of the term was or else have arrived at the conclusion that there are a number of other things which they (mistakenly, for the most part, in our view) put far above liberty. We are closing our eyes to realities when we insist that we are fighting and are ready to keep on fighting to protect and to nourish what all of us have heretofore regarded as personal liberty throughout the world. In the first place it is no longer an effective rallying cry, and millions, yes, hundreds of millions of the men and women of this world are wholly indifferent when they are not actually hostile to the notion.

"Aggression"

Then, there is this business of "aggression" which has during the past two or three decades grown into a fetish with many of us. Of course, it should be plain as a pikestaff to all by now that here is a term which may be defined in a great many ways, and any individual nation may be guilty of it or not guilty, depending upon the definition employed. It should be about as plain that the world has reached the particular stage it now occupies as a result of countless acts of aggression by almost countless groups of individuals and nations—our own, of course, included. When the public men of this country talk about aggression and excoriate it as is their custom, they seem usually to be apotheosizing the *status quo* so far as relations among nations is concerned. They even at times go so far as to appear to insist that there be a limit even to peaceful voluntary change in the type of government and social organization preferred by any given people.

Of course, most of all this clamor — at least in the form in which it is heard from day to day and in which it fills the columns of the press—simply will not stand up under any sort of close examination. It is the result of loose thinking or of loose talking. We often make it appear almost as if we—not the Kremlin—were convinced that there is not room on this globe for communism and any other form of economic and social organization. And, with it all we all too often are placed in the position of defending and supporting many things which an honest, straightforward man would not want on his conscience.

The fact is, though, that we who for so long were contemptuous of the balance of power idea, are now heading toward either a war of extermination with the Kremlin or a world balance of power which conceivably may thwart war for a time at least.

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Financial Implications Of Rearmament

mopping up further increases in money supply and income. Unless the money volume is curtailed, direct controls give rise to black markets, cause buying power to be concentrated on luxury goods and non-rationed articles, and simply serve to postpone inflation.

Overall direct controls in a period of limited emergency such as the present are not warranted. They hamper rather than promote the rearmament program, reducing the flexibility and adaptability of the economy. At the moment, therefore, the better policy is to place main reliance upon fiscal and monetary controls, vigorously applied in every sector of the economy.

Fiscal Measures

Fiscal measures needed to curb inflation concern Federal, state and local budgets. At all levels of government, we should endeavor not only to balance budgets but also to achieve a surplus. To do so, we must be willing, where necessary, to support higher tax measures as well as specific proposals for economy and must be willing to sacrifice individual interests for national welfare.

The Federal Budget

A balanced Federal budget is not an impossibility during the current fiscal year and can be achieved through a twofold development—increases in tax revenues and declines in non-defense expenditures. Tax revenues on the basis of the recent tax law and the estimated size of the national income will, in all probability, be very large. In consequence, no further tax legislation is required. Certainly an excess profits tax with all of its inequities and stimulation of extravagance should not be enacted.

Our action in increasing Federal tax rates has not been matched by similar success in reducing non-defense expenditures. Congressional failure to slash expenditures in the areas of veterans' services and benefits, agriculture and agricultural resources, and public works was not only distinctly disappointing but downright shocking. Despite this failure on the part of Congress, non-defense expenditures can be expected to experience certain automatic declines. Rising prices and a high level of national income will, in themselves, bring about certain reductions in the fields of agriculture and unemployment relief. Curbs on new housing and perhaps a growing demand for investment outlets by savings institutions will reduce the amount of mortgage support required by the government. These different reductions in non-defense expenditures would have been much larger had Congress been less pusillanimous and possessed the requisite courage to buck pressure groups. The President himself possesses certain discretionary powers in expenditure reduction and it is to be hoped that the dismal spectacle of the legislative branch of government may induce him to take decisive action.

Despite Congressional lack of forthright action, it is not at all improbable that high tax revenues and the inability to spend quickly all of the defense funds appropriated will, in this fiscal year, balance the Federal budget. Had the factors making for a balanced budget been appropriately reinforced by courageous expenditure reductions, we might have experienced a surplus which is greatly needed in view of the probability that defense expenditures will rise rapidly in fiscal year 1952.

State and Local Budgets

Equally appropriate action is required in the case of state and local budgets. State and local governments have, in recent years, been incurring deficits at an annual rate of about two billion dollars. Expenditures must be checked in order to reduce the demand for materials and services required by the military and to curb inflation.

Guardians of the Public Purse

All of us must become guardians of the public purse, supporting efforts to balance budgets at every governmental level. In discharging this responsibility, we should direct our efforts towards the reduction of non-defense expenditures and the elimination of waste in the rearmament program.

If inflationary pressures are to be curbed, however, our efforts in this direction must be supplemented by correlative action in the field of credit policy. The purpose of such action is not only to check further increases in the money supply, but also to reduce the use of the existing money volume. Use of the existing money volume will decline if people gain confidence in the dollar. They will then cease spending dollars to buy commodities, common stocks and land as hedges against further losses in the purchasing power of the American currency and will increase their savings.

Credit Control

The Federal Reserve System, including the Board of Governors and the 12 Federal Reserve Banks, is entrusted with the responsibility of controlling inflationary expansions of credit. In order to discharge this responsibility effectively the Federal Reserve System was given a uniquely independent status.[1] The Banking Act of 1935 extended the terms of office of members of the Board to 14 years in the attempt to remove the Board from the political influence of any one Administration. The same act removed the Secretary of the Treasury as an *ex-officio* member of the Board.[2] The independence of the Federal Reserve System is further safeguarded by freeing the Board from dependence upon Congressional appropriations. Funds for its support are assessed upon the individual Reserve Banks. In every possible way, the drafters of the initial Federal Reserve Act and of subsequent amendments, took precautionary measures intended to protect the independence of our central banking system from encroachment by public and private interests.

Selective Credit Control

To discharge its responsibilities the Federal Reserve System has been delegated specific powers with respect both to selective and general credit control. In the Securities Exchange Act of 1934, the Board was given the power to regulate margins on security loans and, in the recently enacted Defense Production Act of 1950, was given power to control the terms of consumer credit and, in the Executive Order issued by President Truman under the Act, was delegated certain powers of control over real estate credit. These three credit fields—security loans, consumer credit, and real estate credit — are sufficiently homogeneous in character to lend themselves to selective credit control.

Security Loans

Since the end of March, 1949, margin requirements on security loans extended for purposes of stock trading have been fixed at 50%. In view of the subsequent rise in security loans and the speculative interest in security trading, the Board of Governors might well consider the desirability of raising these requirements. Although the amount of credit involved in security trading is not excessively large, nevertheless an increase in requirements might act as a psychological deterrent to inflationary trends.

Consumer and Real Estate Credit

The Board of Governors of the Federal Reserve System was well advised a week ago to tighten the initial installment credit regulations which were unduly mild. The new regulations, in increasing down payments and in curtailing the maximum maturity of loans, should succeed in restraining further credit expansion in this field and in helping to hold the price line.

Regulation X concerning real estate loans is expected to bring about a considerable reduction, perhaps as much as one-third, in residential construction. If any such reduction occurs, this regulation can play an important role in releasing materials and labor for defense requirements and in reducing inflationary pressures.

Importance of Selective Credit Controls

A stringent use of selective credit controls will permit us not only to check increases in security loans, consumer and real estate credit but also to initiate actual reductions. If reductions occur, the possibility of bringing about substantial declines in existing purchasing power is good since the current volume of installment credit amounts to about 21 billion dollars and of residential real estate loans to about 42 billion dollars. The Board of Governors of the Federal Reserve System is to be commended upon its courageous use of these controls.

Selective credit control must, however, be supplemented by vigorous use of general credit control. Otherwise its effectiveness in curbing inflation could be completely nullified by increases

2 According to Senator Glass who sponsored the legislation and who himself had held that office, the Secretary of the Treasury had always exercised a pernicious influence on decisions of the Board.

in bank credit resulting from possible deficit financing, from the refinancing of debt, or from increase in non-essential business loans.

General Credit Control

The use of general credit control implies restrictive policies on the part of the Federal Reserve Banks of such a character that interest rates will rise. A rise in interest rates is necessary in order to reduce the availability of credit, to stimulate savings, and to bring about declines in public offerings of corporate and municipal securities. In consequence, spending will fall, inflation will be checked and confidence will be engendered in the dollar.

The United States Treasury opposes an effective use of general credit control principally by reason of its effect on interest costs on the debt. The Treasury reasons that slight increases in interest rates can in themselves have little effect and that large increases are out of question by reason of the magnitude of the public debt.

This rationalization on the part of the Treasury fails to carry conviction. As the Bank for International Settlements pointed out, in its recent annual report, slight increases in interest rates may have a very important psychological effect. Years ago discount rates at central banks had to be increased by as much as 1% at a time to make an impression on the market. Now that official rates of discount have been left unchanged for many years, increases of as little as $\frac{1}{4}$ or $\frac{1}{2}$ of 1% can have a distinct psychological effect.

If, however, small increases fail to dampen inflationary psychology, a central bank should not hesitate to allow rates to rise to whatever level proves necessary. Though interest costs on the debt rise, it is far better that this occur than that the American people constantly lose their savings through continued declines in the purchasing power of the dollar.

Those of our fellow citizens who patriotically purchased war savings bonds during the war have already suffered a severe loss in purchasing power. Now is the time to take effective action against a further expropriation of the savings of the thrifty even though the result be a sharp increase in interest rates and a decline below par in the prices of the outstanding marketable bonds of the government. Unless effective action is taken, why indeed should our citizens continue to purchase government bonds?

Other nations, with large internal debts, have allowed interest rates to rise and their bonds to break par without any untoward results. Not only free enterprise Belgium but also Socialist Britain have permitted substantial increases in long-term rates. Certainly if Socialist Britain were willing to allow bond prices to break par, free enterprise America should not hesitate to do so. In fact, if we fail to do so, we run the risk of ceasing to be a free enterprise economy.

Evil of Artificial Interest Rates

Interest rates held artificially low by Federal Reserve policy will cause commodity prices to bulge. What the Treasury saves in interest costs is more than offset by increased costs of the defense program. Interest rates held artificially low by Federal Reserve policy causes it to lose all control over the money supply. The money supply is determined by the capricious action of owners of the public debt in deciding to sell or not to sell their holdings at pegged prices to the Reserve banks. Interest rates held artificially low by Federal Reserve Policy will eventually mean the imposition of controls over financial institutions and over the money and capital markets of such a character that free enterprise will be relegated to the limbo of nostalgic memories.

The Federal Reserve System is now fighting for a flexible interest rate and credit policy. It has challenged the position of the Treasury and the long-smoldering controversy between the two has come out into the open.

Issue Cannot Be Compromised

This controversy between the Federal Reserve and the Treasury cannot be comprised or resolved, as many have suggested, by reference to some high political authority. The Federal Reserve Act has conferred very definite duties and responsibilities upon the Federal Reserve System, which it cannot evade. The System is directed to fix discount rates with a view "of accommodating commerce and business" and to govern open-market operations "with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country." A fair interpretation of these powers means that the Federal Reserve System, in the formulation of credit policy, is to give primary emphasis to the general credit needs of the country, curbing inflation or offsetting deflation whenever either policy is required. Certainly the Federal Reserve System has no mandate to support the prices of government obligations or to adjust its policies to those of the United States Treasury.

Origin of the Controversy

The present controversy has its origin in the wartime interest curve on government obligations and in the decision of the Treasury to peg this curve. The curve selected was, as you will recall, a sharply ascending one, rising steeply from $\frac{3}{8}$ of 1% on Treasury bills, to 2% on 10-year obligations and to $2\frac{1}{2}$% on long-term securities.

The Treasury dictated the adoption of this particular curve. Certain students of the money market wanted a higher short-term and a higher long-term rate of interest and a curve less steeply inclined. Still other students doubted the wisdom of a curve, rigidly pegged. These arguments were brushed aside in the decision of the Treasury to finance the war on the basis virtually of the pre-Pearl Harbor curve which itself had resulted from the gold inflow of 1934-1941 and which, against the historical record of the past, was wholly artificial in character.

Effects of the Wartime Curve

The sharply inclined curve adopted by the Treasury for its wartime financing aggravated the inflation of the war and postwar periods. It promoted speculation in the public debt, with the pegged curve guaranteeing speculators a sure profit. It induced the Treasury to rely heavily upon sales of low interest-rate short-dated obligations. It promoted the wartime expansion in bank credit, as the sharply increasing volume of the floating debt gravitated to the banking system.

Postwar Policy

Our wartime fiscal errors were compounded in the postwar period by the failure of the Treasury to heed the advice of the Federal Reserve System. Beginning shortly after the close of the war, in 1945, the System wished to follow a policy of credit restraint, which would have necessitated "small, but perhaps frequent, increases in short-term interest rates which would have meant similar increases in rates on Treasury bills and certificates and some increase in the yield on other short and intermediate government securities."[3] In line with this policy the System wanted to discontinue, before the end of 1945, its preferential discount rate on government obligations maturing within a year. Treasury agreement was not forthcoming until April, 1946.

All through 1946, when commodity prices and commercial bank credit were increasing rapidly, the Federal Reserve System desired to eliminate the wholly artificial rate of $\frac{3}{8}$ of 1% on Treasury bills. It wished to bring about increases in short-term rates in order to dissuade investors from selling short-term government obligations to the Federal Reserve Banks and, in short, to check inflationary pressures. The Treasury was opposed. Short-term rates remained pegged with the result that Treasury bills continued to gravitate to the Reserve Banks until, by the end of 1946, the System held 87% of the amount outstanding.

Commodity prices and bank credit continued to rise rapidly in 1947. The continuation of inflation, and the limited effectiveness of debt retirement as a counter measure, persuaded the Treasury that the Reserve System was correct in its desire to unpeg the bill rate. Action, however, was postponed until July, 1947 on the erroneous assumption that a business recession was impending and that a rise in the Treasury bill rate would aggravate such a recession. The eventual unpegging of the bill rate was followed throughout the rest of the year by successive increases in short-term rates.

Pegging the Bond Market

In 1948 the Reserve System endeavored to curtail inflationary pressures through continued increases in the short-term rate of interest, through two increases in the discount rate, through increases in member bank reserve requirements and through the reimposition of Regulation W. At the same time it pegged the bond market, an action which was wholly inconsistent with the measures designed to curtail inflation. In its stabilization operations, the Federal Reserve System purchased in all about 9 billion dollars of government bonds, consisting mostly of the long-term restricted issues.

Many reasons were advanced as justification for the pegging operations. It was alleged that failure to peg government bond prices would plunge our economy into depression, would cause great encashment of the savings bonds and would cause embarrassment to our financial institutions. None of these arguments carries conviction. They reveal a total lack of faith in the underlying strength of the American economy, in the common sense of the American people, and in the ability and willingness of financial institutions to carry their holdings of government obligations to maturity. It is to be regretted that the Federal Reserve System itself favored the pegging of the bond market. This policy had the effect of making all government securities demand obligations and tantamount to excess reserves. The better policy would have been to allow government bonds to decline in price, abandoning the fetish of par.

Inflation Revives

Renewal of inflationary pressures toward the end of 1949 and their acceleration in 1950 caused Reserve officials to bring about moderate increases in short- and long-term rates. In this attempt to check inflation they hoped to have the friendly understanding and cooperation of the Treasury. When the Treasury on Aug 18, announced the terms of the September and October refinancing (a 13-month $1\frac{1}{4}$% note), which was not in accord with Federal Reserve policy, the Federal Reserve Bank announced simultaneously an increase in the Bank rate from $1\frac{1}{2}$ to $1\frac{3}{4}$% and began bringing about further increases in short-term market rates. In order, however, that the new issue would not be a complete flop, the Federal Reserve purchased the maturing obligations and sold, at a higher discount, Treasury bills, certificates and notes from its own portfolio. Thus the controversy rests for the moment until such time as plans are made for refinancing of the debt maturing in December.

Assertion of independence by the Federal Reserve System is an extremely encouraging development in the fight against inflation. Even though many of us regret that the Federal Reserve System did not, earlier in the postwar period, end its subservience to the Treasury, all of us who would defend what remains of the purchasing power of the dollar should give our enthusiastic support to our central banking system in the present controversy. Legally, its position is impregnable; economically, its position is unassailable.

Treasury Position

The record of the past few years affords evidence that the Treasury is fundamentally opposed to the Federal Reserve's goal of a genuinely flexible credit and interest rate policy. If the Treasury were questioned, it would doubtless insist that it had cooperated with the Reserve System, pointing to the rise in short-term rates since the end of the war. However, Treasury consent to the relatively small changes that have occurred has been given reluctantly and belatedly. And, on occasion, the Treasury has, in a very arbitrary fashion, moved counter to Reserve policy—such was the case in connection with the refinancing of debt maturities in June, July, September and October of this year.

In opposing Federal Reserve policy on these occasions, the Treasury acted as if it had not assented to the important pronouncement of the Open-Market Committee of the Federal Reserve System of June 28, 1949. Even though couched in somewhat ambiguous terms, this pronouncement did, with Treasury approval, lay the basis for a really flexible interest rate policy.

Judging by the evidence at hand, one is justified in concluding that Treasury policy is composed principally of two factors:

(1) The desire to keep interest rates low in order to reduce interest costs on the debt to a minimum.

(2) The desire to refinance maturing intermediate and long-term marketable debt by issuing short-term obligations.

Low short-term rates have caused the Treasury, in its refinancing operations, to increase the floating debt and, in turn, the existence of a large floating debt accounts for the Treasury's opposition to rate increases. The one policy is closely related to the other. Were short-term rates higher, the Treasury might have been induced to issue long-term bonds and follow orthodox practice in pushing out debt maturities.

Consequences of Treasury Policy

Should these policies of the Treasury continue to prevail, the future is fraught with danger to the whole financial system. An unwillingness to allow price to be determined by market forces leads inevitably to the imposition of controls. This is true whether the price is of money or of corn. The continued maintenance of artificially low interest rates and continued adherence to the fetish of par, portend additional controls for the financial system and, as Elliott V. Bell so ably stated, the end of the dual type of banking system.[4]

The controls to be imposed under these circumstances will probably take the following forms:

(1) The imposition of a secondary reserve requirement upon all commercial banks in order to provide a market for short-term government obligations at low rates.

(2) The imposition of controls upon the portfolio policies of insurance companies and savings banks to prevent sales of government obligations in periods of inflationary credit expansion.

(3) The imposition of controls over the capital markets to regulate the issuance of securities.

Lest I be misunderstood, the Treasury has not as yet advocated such controls. However, they are the logical development of present Treasury policies and attitudes.

Flexibile Policy and Free Enterprise

A truly flexible interest rate policy is a necessary ingredient in a free enterprise system. The determination of credit and interest rate policy is a function of the Federal Reserve System. It was created to mitigate amplitudes in business fluctuations, to safeguard the economy from monetary crises and panics and from the tragedy of inflation and deflation. It will be judged by the success it achieves in realizing these objectives. But the Federal Reserve System cannot succeed in attaining these objectives unless it has a free hand in the formulation of a fluid credit and interest rate policy. In order that it may have effective support, Congress should, in accordance with the proposal of the Subcommittee on Monetary, Credit and Fiscal Policies of the Joint Committee on the Economic Report,[5] issue a directive stating that "primary power and responsibility for regulating the supply, availability, and cost of credit in general shall be vested in the duly constituted authorities of the Federal Reserve System, and that Treasury actions relative to money, credit and transactions in the Federal debt shall be made consistent with the policies of the Federal Reserve." Although this proposed resolution simply reaffirms the powers already delegated to the Reserve System, it possesses the merit of calling specific attention to these powers and to the primary responsibilities of the Reserve System.

Summary

Unless we are able to win the fight against inflation on the home front, we shall lose the peace, despite the brilliance achieved in our military victories. To win the battle against inflation, we should insist:

(1) **That Federal, State and local governmental budgets be balanced.**

This means sharp reductions in non-defense expenditures and a careful scrutiny of all defense expenditures.

(2) **That the Treasury refinance maturing debt and new money needs by issuing long-term marketable obligations.**

The Treasury could well offer, with the distinct understanding that it will not be subject to price support, a 30-35-year 3% obligation available for sale to non-bank investors. Purchase of such securities by non-bank investors

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3 Statement of Mr. Allan Sproul, President of the Federal Reserve Bank of New York, before the subcommittee on Monetary, Credit and Fiscal Policies of the Joint Committee on the Economic Report, December. 2, 1949.

4 Address before the 49th Annual Convention of the National Association of Supervisors of State Banks, Boston, Massachusetts, September 20, 1950.

5 P. 18. Senate Document No. 129, 81st Congress, 2nd Session.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

After some minor hemming and hawing the market went up nicely last week, closing plus practically all around. The Industrials added about three points and the Rails about a half point. Both averages, however, were higher than that during the week.

* * *

There is considerable talk around today that credit restrictions may tend to stop any further business improvement and by the same token the market may be expected to go down. This kind of talk is particularly prevalent during week-ends when the financial pages are full of statements pointing alarm and warning of the headaches to come.

* * *

For all I know most of this credit stringency and its effect may be gospel truth. It's interesting to note, however, that in spite of all the doleful head shaking, the automobile stocks, which would be the worst hit, under the anti-inflationary measures, now appear to have taken a new lease on life.

* * *

Such stocks like Chrysler, General Motors and Hudson are meeting with some of the best buying in months. It is possible that such buying is the forerunner to a rally to be subsequently followed by a severe break. But whether or not a reaction will ultimately occur is not pertinent at this time. For the immediate future buyers of the motor stocks will probably see higher prices.

* * *

Yet while the automobile issues look higher, another group which has been a bulwark to the bull market for months, is beginning to show signs of exhaustion. This group is the rails. I don't know the reason for this, and even if I did it probably would interest me only academically.

* * *

There are a few rails that look higher, such as Southern Pacific, Union Pacific, etc. The group, however, is beginning to show signs of fraying around the edges.

* * *

A few weeks ago I spoke about the utilities. Based on their cumulative action over the past few months they give indications or better than customary performance in the months ahead. It might be pertinent, however, to water down this blanket approval of the group to say that the utilities will probably stay around current levels for some time before generating enough steam to get up and go. This means a long haul and a tieing up of cash in something that isn't likely to show any real profits for some time to come.

[*The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.*]

Holton, Hull Add Five to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—John J. Dowd, Martin J. Haims, Michael J. Flannery, James A. Keene and Walter Dean Ogden have become associated with Holton, Hull & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. Mr. Keene was formerly Vice-President and Sales Manager for Floyd A. Allen & Co., with which firm the others were also associated.

Joins Gross, Rogers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—Culbert W. Faries has been added to the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

With Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—William O. Guasti is with Harris, Upham & Co., 523 West Sixth Street.

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Financial Implications Of Rearmament

would, in effect, mean a transfer of debt from commercial banks to savings institutions. A salutary decline in bank deposits would result.

The Treasury should cease sales of non-marketable redemption obligations except to meet the normal demand for the E bonds. A large volume of non-marketable debt not only places a potential draft upon the commercial banking system, but also tends to freeze the interest rate curve. The banking system is under potential draft because heavy redemptions will cause the Treasury to sell obligations to commercial banks. A large redemption debt tends to freeze the existing interest rate curve for fear that increase in money rates will cause owners to redeem their holdings of non-marketable debt. Particularly is this the case now that redemption values are based on the wartime rather than the present interest rate curve.

(3) **That vigorous reliance be placed upon selective credit control in the three fields of security loans, consumer credit and mortgage credit.**

The aim of such controls should not only be that of checking increases in these forms of credit, but of bringing about a substantial decline in order to release materials and men to the defense program.

(4) **That the Federal Reserve System be free to formulate credit policies which it deems in the best interests of the nation, and to which the Treasury must adjust its operations.**

Those of us who believe in a dual banking system privately managed and operated and who subscribe to free competition in the capital markets as in the other sectors of our economic life should give full support to the Federal Reserve System in its present controversy with the Treasury. It is fighting the fight of free enterprise and of a private banking system.

Continued from first page

Inflation, Deflation and The Stock Market

showing up more and more, which indicate a growing vulnerability at least on an intermediate basis.

Among them are the distributive patterns that have appeared in a good many stocks and are now appearing in many more. The jiggles and sharp movements in individual issues that are beginning to take place is another usual occurrence at this point. It is also true that, again beginning roughly about a month ago, the amount of volume needed to advance the market by a point in the industrial average began to shoot up very sharply, and that ratio has continued since then in an unfavorable direction.

Might Have Blow-Off

I would not know nor be at all sure that the highs of 10 days ago were the absolute highs of this move. It is possible that we might between now and the election have something of a blow-off in the market, the type of thing which we have had very seldom in recent years. If we did have it, I think it would make the market's vulnerability complete and would make the attitude of cutting down on stock commitments at least on an intermediate basis as close to a guaranteed procedure as you could ask for.

It is true that in back of all this is a great inflationary background, which certainly has been sharply increased since the war with Korea broke out. I would like to point out in connection with that only this, that other great inflations have had equally great interruptions, and the larger the inflation the larger the interruptions become.

I would like to question the idea that in a really great inflation common stocks benefit greatly thereby or are particularly good hedges. However, that idea is such a common public belief that as the inflation idea rises in the public mind it subjects the market to wider and more violent swings than would otherwise occur.

Actually, looking the situation over, aren't we in for a period of at least some deflation over the next, say, six to nine months? I don't need to go into detail on what the Federal Reserve Board is doing in the way of new credit controls. However, it is interesting that rather than pay direct attention to the outcries that have arisen against the effect of the controls already made, they are continuing on and are instituting even tighter controls, and conceivably will go a good deal further.

Question of Controls

I have noted that they have agreed to review the situation, but that they state that that review will not be completed for several weeks. Well, we are just exactly three weeks away from the election. I think it may be very significant that they will not have completed that review until the election returns are in, and the question of stiff controls and possibly stiffer controls is removed from that part of the political arena. I wouldn't say it is removed from politics, by a long shot.

You have all seen the estimates that the recent increased payments for housing are calculated to bring about a drop of something in the neighborhood of 50% in residential construction next year. The decline, of course, in factory building and other types of construction, would not be nearly as large as that.

The recent shortening of the periods of payment on automobiles from 18 months to 15 months, and also on certain other goods, is a really tough one. It isn't the ⅓-down payment that causes the great trouble at the present time; it is the increase in the monthly payments by shortening the period that really hurts.

Even allowing for that, one will say to me, "The automobile companies will still have a good year next year, just as a very round figure, let us say, a 5-million car year." That is an enormously good year, but that is a drop not only from the estimated 1950 figure of 6½ million cars but also from the third quarter rate of slightly over 8 million cars, and that is a worthwhile decline.

I could carry that analogy through into other important segments of the economy, particularly the heavy goods end, but I think that is enough as an outline of that part of the picture for the next six to nine months.

Rearmament Not a Simple Problem

In the meantime, it is well known that to get a rearmament program rolling is no simple problem. The blue-prints alone are very time-consuming, and before we will have a rearmament program coming in in quantity to take up whatever slack may develop, should be, as a good guess, at least six months and maybe as much as nine.

I think it is very important to go back and read the statement of the Federal Reserve Board in August which you might call their "Declaration of Independence"—independence from subservience to the Treasury Department. I think it indicates that they are going to play for keeps and that they have no intention whatsoever of not doing so.

I mention that because the indications are that they intend to continue to firm up short-term interest rates as part of their program. They obviously are not shooting for any drastic change in the over-all interest pattern. That is, I think, out of the picture.

However, I cannot help but be concerned particularly as a partner of a house that does a certain amount of underwriting, to recognize that we have a very substantial amount of new-issues business ahead of us between now and the end of the year, and I am keeping an awfully sharp eye on short-term interest rates and what the Reserve Board does, because even a brief jam in the capital market would have some repercussions on the stock market.

One of our colleagues has pointed out that for the fifth time in the history of this country we have had a really substantial decline in bank investment, which got under way in January of this year. The previous comparable times were 1919, 1928-1929, 1937 and 1946. A great many arguments can be produced that it is different this time. They would not be the same arguments that were produced at the previous times to prove that they were different, but they still would be there.

I don't like that analogy at all, because those previous periods preceded something rather painful.

Further, as to the question of inflation and deflation, the Treasury is currently running a slight surplus, according to the last figures, and probably will have something in the nature of not too much of a deficit for the fiscal year, and actually on a cash basis will run a very substantial surplus between now and the first of April. That, for the time being, is definitely on the deflationary side.

The Tax Picture

I don't know what to say exactly about the tax picture. The news stories, the inside information, the news letters, and all the rest of it, change so much from week to week as to what is going to happen to us that I think that is a subject that would be more dangerous to make a prediction on than the stock market, and that is saying a good deal.

However, in relation to taxes, I think it is important, then, to move on and at least take a look at and make some kind of guess regarding the domestic political scene and the coming elections.

In August—beginning in July but particularly in August — the Republican hopes were very high of a really substantial overturn in November's Congressional elections. They talked of capturing the Senate, of at least cutting the Democratic majority in the House to a very low figure, and some went as far as to even predict a Republican House. Those hopes dwindled somewhat in September, but they were still there. From what I can find out, they have now virtually disappeared; so much so, that the dope from Ohio,

as many of you probably know, is that Robert Taft has no better than a fifty-fifty chance of being reelected. In other words, there is a reasonable chance that Taft will be beaten.

That, in itself, would be quite a blow to the conservative side, or whatever you want to call it.

I have no doubts in my mind that the Democratic party has already been taken over by labor. However, this would be such a clear demonstration of it, and the boost that it would give to the man in the White House would be such, that I think it would have many unpleasant repercussions.

Leaving Taft out of it, if there is no particular change in the make-up of the Senate or the House after the elections, it will be a distinct setback for the Republicans because it is normal to have some swingback to the opposition party in what they call the off-year election. I think it would constitute something in effect of a mandate to Mr. Truman to go ahead with what he wanted to do in the way in which he wanted to do it.

Well, there are such things in the picture as rollbacks of prices. People now laugh at me when I say it, but I can't get it out of my mind completely.

The Foreign Picture

It is almost essential to make a couple of remarks on the foreign picture.

We, apparently, are in for a certain number of months of peace, because it seems unlikely that the Russians will start something importantly new during the winter. However, I would like to point out that they are doing pretty well in Indo-China right now. Yes, they have indirectly taken a very bad beating in Korea, but they may accomplish a great deal more in Indo-China. Actually, I have held a theory for a number of years, and I happen to have studied Russia for a great many years, that the danger period came when we finally had them stopped. As long as they can advance on some front, I would say the odds on war were rather small, but as soon as we get sufficiently busy in stopping them, and they no longer have some place at which they can expand, then I think you have a really critical period ahead of you.

At that point, in essence of what will happen, as far as their own people are concerned, is that the boys in the Kremlin will have to fish or cut bait.

Consequently, I took upon 1951 as a much more dangerous year than 1950.

In summary, this all adds up, to me, from the technical point of view, the political point of view, the business and economic and the foreign points of view, to the opinion that we have ahead of us and are just about beginning to enter a period during which a great many things could happen which would be bad for the market, and not very many things are likely to happen which will be particularly good for it, and at its present level and in its somewhat technically vulnerable condition, certainly at least on an intermediate basis, it is a better sale than a purchase.

H. L. Goldberg & Co.

H. L. Goldberg & Co., members of the New York Stock Exchange, will be formed Nov. 2 with offices at 11 Wall Street. Partners will be Henry L. Goldberg, member of the Exchange, and Harry Neufeld, who will acquire the exchange membership of the late Joseph M. Fitzsimmons.

Continued from page 5

The State of Trade and Industry

ing mill space available to break down the ingots, concludes the "Iron Age."

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 102.6% of capacity for the week beginning Oct. 23, 1950, compared to 102% a week ago, or a rise of 0.6 point.

This will be the fifth consecutive week in which more steel is scheduled to be made than ever before in the history of the steel industry and the sixth consecutive week and the eighteenth week of 1950 in which steelmaking furnaces have been operated at 100% of capacity or higher.

This week's operating rate is equivalent to 1,978,900 tons of steel ingots and castings for the entire industry, compared to 1,967,300 tons a week ago. A month ago, based on new capacity the rate was 100.7% and production amounted to 1,942,200 tons; a year ago, based on the smaller capacity then prevailing, it stood at 9% and 166,000 tons. The low output a year ago was due to a strike then in progress.

Electric Output Declines Further in Latest Week

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 21, was estimated at 6,502,540,000 kwh., according to the Edison Electric Institute.

It was 6,051,000 kwh. lower than the figure reported for the previous week, 72,202,000 kwh., or 19.7% above the total output for the week ended Oct. 22, 1949, and 963,655,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance to Highest Level Since Last Week in October, 1948

Loadings of revenue freight for the week ended Oct. 14, 1950, totaled 888,559 cars, according to the Association of American Railroads, the highest since the last week in October, 1948, and an increase of 24,883 cars, or 2.9% above the preceding week.

The week's total represented an increase of 304,611 cars, or 52.2% above the corresponding week in 1949, but a decrease of 24,398 cars, or 2.7% below the comparable period of 1948.

Auto Output Rises on Return of General Motors and Ford to Normal Operations

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 184,121 units, compared with the previous week's total of 174,040 (revised) units and 143,049 units a year ago.

Responsible for the rise was the return of General Motors and Ford to normal operations, Ward's stated. The former had had a branch assembly closed last week for inventory, while Ford's output was held down by the after-effects of the earlier strike in its steel plant rolling mills.

Total output for the current week was made up of 150,530 cars and 25,497 trucks built in the United States and a total of 5,714 cars and 2,380 trucks built in Canada.

For the United States, output was 176,027 units, and in the like week of last year 135,656. Canadian output a year ago amounted to 7,393 units.

Business Failures Decline Below Week and Year Ago

Commercial and industrial failures declined to 165 in the week ended Oct. 19 from 188 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties were less numerous than a year ago when 181 occurred, but continued above the 1948 total of 124; they were down 40% from the 277 recorded in the similar week of 1939.

Of the week's total casualties, 127 involved liabilities of $5,000 or more. Failures of this size declined from 137 in the previous week and 141 last year. Small casualties, those having liabilities under $5,000, fell to 38 from 51 a week ago and compared with 40 of a year ago.

All industry and trade groups, except manufacturing, which rose from 2 to 39, evinced a decrease during the week. Casualties were less than a year ago in all lines except commercial service. The sharpest decline was in wholesale trade where only one-half as many failures occurred as a year ago.

A major portion of the weekly decrease was concentrated in the Pacific States. The Middle Atlantic and New England States noted an increase. In these two areas as well as in the West North Central, the East and West South Central, casualties equalled or exceeded their 1949 level. Among the remaining four regions, failures dipped only slightly below last year except for a sharp decline in the South Atlantic States to less than one-fourth the number in 1949.

Food Price Index Holds Unchanged at Lowest Level in Three Months

Reflecting mixed movements in food prices the past week, the Dun & Bradstreet wholesale food price index for Oct. 17 continued unchanged at $6.48, the lowest level since July 18 when it stood at $6.41. The current number represents a rise of 16.1% above the $5.58 recorded on the corresponding date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index. Its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Shows Little Change in Week

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., trended lower most of the past week, but turned upward at the close to finish at 290.44 on Oct. 17. This compared with 290.28 a week earlier and with 241.71 on the corresponding date a year ago.

Grain prices moved irregularly in narrow limits with the general trend downward.

Trading interest continued dull and volume of sales on the Chicago Board of Trade fell to the lowest level since before the start of the Korean War.

Wheat showed greatest weakness under pressure of hedges induced by poor export demand, large storage stocks and slow domestic flour buying. Corn was relatively stronger than other grains, aided by light country marketings and continued moderate demand for export. The October crop report of the Department of Agriculture, issued last week, showed little change from a month ago. The estimated production of wheat for 1950 was placed at 1,010,069,000 bushels, corn at 3,117,967,000 bushels, oats at 1,483,-975,000 bushels and soybeans at 275,256,000 bushels.

Aside from some bookings of spring wheat flours at the start of the week, the domestic flour market remained very quiet. Temporary price reductions at the weekend failed to bring any appreciable volume of bookings as most users were covered for two to three months at somewhat lower prices. Cocoa continued depressed with further declines reflecting a lack of interest in the spot market and a seasonal expansion in offerings from primary markets. Domestic sugar futures tended to sag in comparatively light trading.

Deliveries of refined sugar in the week ended Oct. 7 dropped sharply to 118,000 tons, the lowest since last February.

Coffee prices were irregular with several large grocery chains announcing a reduction of 2 cents a pound in the retail price of coffee, the first decline since mid-May. Lard developed a stronger tone following early weakness.

Cotton prices moved steadily lower this week under pressure of heavy liquidation. The New York spot quotation showing a further sharp drop of 2.34 cents a pound from a week ago. Trading was less active with buying limited mostly to mill price-fixing. Demand for export was considerably slower. Early selling was prompted by the official Oct. 1 crop forecast of 9,869,000 bales, which showed a decrease of only 13,000 bales from a month previous. Further weakness and uncertainty resulted from the announcement of export controls for the staple.

Cotton ginnings reported through the end of September this season totaled 2,770,000 bales, a decline of 47.8% from 5,306,000 bales ginned in the corresponding period a year earlier.

Daily average consumption of cotton during September, as estimated by the New York Cotton Exchange, was 38,800 bales, as against a daily rate of 40,400 in August and 32,600 in September, last year.

Trade Volume Turns Lower Due to Unfavorable Weather and Credit Controls

Unfavorable weather and the tightening of credit controls were instrumental in reducing total retail trade slightly below the level of the preceding week; however, aggregate dollar volume of consumer purchases continued to exceed that of a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade. Shoppers were generally not as selective and price-conscious as in 1949.

Retailers of apparel sold slightly less than during the preceding week, but total unit volume remained above that of a year ago. Indian Summer weather in many sections discouraged interest in coats and suits.

Aggressive promotions of women's sportswear, children's clothing, and haberdashery generally garnered spirited response.

Retail food volume was practically on a par with that of the previous week, but moderately higher than a year ago. Among the items highly favored by housewives were poultry, pork and canned meats. There was a very slight rise in the amount of frozen food sold; peas, berries and juices were increasingly popular. Many retailers noted a slackening in the demand for pantry staples such as sugar and coffee.

Household goods were in decreased demand in most parts of the nation last week and total volume did not vary appreciably from a year ago. While shoppers' interest in small appliances, incidental furniture, and hardware remained high, there was a noticeable lessening in the demand for television sets and large furniture pieces.

Sales volume of both new and used automobiles continued to slip.

Total retail dollar volume for the country in the period ended on Wednesday of last week was estimated to be from 2 to 6% above a year ago. Regional estimates varied from last year's levels by these percentages:

New England +5 to +9, East +1 to +5, South and Midwest +3 to +7, Northwest and Pacific Coast +2 to +6.

Reflecting uncertainty in some trade circles over future government plans, the dollar volume of wholesale orders shrank slightly in the week. However, it was noticeably higher than in the similar 1949 week. Buyer attendance at many wholesale markets declined moderately from the prior week and was somewhat below that of a year earlier.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 14, 1950, rose 11% from the like period of last year. An interest of 9% (revised) was recorded for the previous week from that of a year ago. For the four weeks ended Oct. 14, 1950, sales showed a rise of 9% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Notwithstanding the fact that fall apparel sales in New York last week were sluggish due to the warm weather, department store sales were up about 12%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 14, 1950, advanced 13% from the like period of last year. In the preceding week a rise of 5% was registered from the similar week of 1949. For the four weeks ended Oct. 14, 1950, an increase of 9% was noted and for the year to date, volume advanced 1% from the like period of last year.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 29	102.6	102.0	100.7	9.0
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 29	1,978,900	1,967,300	1,942,200	166,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Oct. 14	5,861,750	5,871,900	5,938,330	5,043,550
Crude runs to stills — daily average (bbls.)	Oct. 14	†6,124,000	6,091,000	5,983,000	5,324,000
Gasoline output (bbls.)	Oct. 14	20,090,000	19,259,000	19,628,000	17,978,000
Kerosene output (bbls.)	Oct. 14	2,366,000	2,240,000	2,175,000	1,865,000
Gas, oil, and distillate fuel oil output (bbls.)	Oct. 14	8,874,000	8,449,000	8,314,000	6,752,000
Residual fuel oil output (bbls.)	Oct. 14	8,426,000	8,156,000	8,160,000	7,659,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 14	103,807,000	103,700,000	104,305,000	102,767,000
Kerosene (bbls.) at	Oct. 14	28,555,000	28,170,000	26,577,000	27,758,000
Gas, oil, and distillate fuel oil (bbls.) at	Oct. 14	80,959,000	78,601,000	74,136,000	86,952,000
Residual fuel oil (bbls.) at	Oct. 14	42,626,000	42,213,000	42,208,000	69,081,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 14	888,559	863,676	866,207	583,948
Revenue freight received from connections (number of cars)	Oct. 14	727,383	730,156	696,740	505,684
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 19	$260,750,000	$156,697,000	$238,899,000	$121,542,000
Private construction	Oct. 19	183,265,000	88,065,000	144,425,000	62,894,000
Public construction	Oct. 19	77,485,000	68,632,000	94,474,000	58,648,000
State and municipal	Oct. 19	72,659,000	57,306,000	85,998,000	51,459,000
Federal	Oct. 19	4,826,000	11,326,000	8,476,000	7,189,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 14	11,500,000	11,415,000	11,275,000	2,316,000
Pennsylvania anthracite (tons)	Oct. 14	1,081,000	1,003,000	923,000	1,260,000
Beehive coke (tons)	Oct. 14	147,600	*144,200	152,700	1,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 14	322	*325	368	290
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 21	6,502,540	6,508,591	6,457,030	5,430,338
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Oct. 19	165	188	155	181
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 18	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Oct. 18	$49.36	$49.19	$46.61	$45.88
Scrap steel (per gross ton)	Oct. 18	$40.67	$40.67	$40.75	$26.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 18	24.200c	24.200c	22.900c	17.325c
Export refinery at	Oct. 18	24.425c	24.425c	24.425c	17.550c
Straits tin (New York) at	Oct. 18	113.250c	112.000c	101.000c	96.000c
Lead (New York) at	Oct. 18	16.000c	16.000c	16.000c	13.000c
Lead (St. Louis) at	Oct. 18	15.800c	15.800c	15.800c	12.800c
Zinc (East St. Louis) at	Oct. 18	17.500c	17.500c	17.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 24	101.49	101.55	101.69	103.90
Average corporate	Oct. 24	115.24	115.43	115.43	115.04
Aaa	Oct. 24	119.41	119.61	119.61	120.84
Aa	Oct. 24	118.40	118.60	118.60	119.00
A	Oct. 24	114.66	115.04	115.24	114.27
Baa	Oct. 24	109.06	109.06	109.06	106.74
Railroad Group	Oct. 24	111.25	111.44	111.62	109.60
Public Utilities Group	Oct. 24	115.82	116.02	116.02	116.41
Industrials Group	Oct. 24	119.00	119.00	119.01	119.20
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 24	2.39	2.38	2.37	2.21
Average corporate	Oct. 24	2.89	2.88	2.88	2.90
Aaa	Oct. 24	2.68	2.67	2.67	2.61
Aa	Oct. 24	2.73	2.72	2.72	2.70
A	Oct. 24	2.92	2.90	2.89	2.94
Baa	Oct. 24	3.22	3.22	3.22	3.35
Railroad Group	Oct. 24	3.10	3.09	3.08	3.19
Public Utilities Group	Oct. 24	2.86	2.85	2.85	2.83
Industrials Group	Oct. 24	2.70	2.70	2.70	2.69
MOODY'S COMMODITY INDEX	Oct. 24	467.1	466.2	468.6	339.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 14	231,419	281,869	207,785	191,375
Production (tons)	Oct. 14	237,498	231,663	231,325	208,450
Percentage of activity	Oct. 14	102	100	100	94
Unfilled orders (tons) at	Oct. 14	752,556	763,679	714,466	422,552
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 20	137.5	137.8	136.4	126.1
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Oct. 7	39,129	31,014	19,828	20,648
Number of shares—Customers' total sales	Oct. 7	1,182,139	941,601	592,738	625,857
Dollar value	Oct. 7	$52,921,967	$41,807,525	$26,141,879	$23,460,428
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Oct. 7	42,548	34,814	21,884	23,389
Customers' short sales	Oct. 7	314	286	294	182
Customers' other sales	Oct. 7	42,234	34,528	21,590	23,207
Number of shares—Customers' total sales	Oct. 7	1,233,440	997,317	612,186	654,991
Customers' short sales	Oct. 7	12,011	10,484	10,832	6,484
Customers' other sales	Oct. 7	1,221,429	986,829	601,354	648,507
Dollar value	Oct. 7	$48,142,457	$39,247,146	$23,424,479	$21,501,537
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 7	396,460	342,220	201,450	242,250
Short sales	Oct. 7	------	------	------	------
Other sales	Oct. 7	396,460	342,220	201,450	242,250
Round-lot purchases by dealers—					
Number of shares	Oct. 7	379,880	271,660	202,020	215,070
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 17	168.7	*168.4	169.8	151.9
Farm products	Oct. 17	177.9	177.9	181.3	159.2
Grains	Oct. 17	163.0	165.4	166.0	152.1
Livestock	Oct. 17	223.8	221.1	235.3	197.1
Foods	Oct. 17	173.9	172.6	179.0	159.6
Meats	Oct. 17	240.9	234.4	259.9	218.2
All commodities other than farm and foods	Oct. 17	160.9	160.8	159.2	144.9
Textile products	Oct. 17	162.2	162.2	161.1	138.0
Fuel and lighting materials	Oct. 17	135.4	135.0	134.9	130.5
Metals and metal products	Oct. 17	177.8	177.5	176.0	167.3
Building materials	Oct. 17	222.0	222.0	221.8	189.4
Chemicals and allied products	Oct. 17	131.6	130.6	128.6	116.0

*Revised figure. †Includes 459,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of August:			
Total gas (M therms)	2,768,846	2,711,139	2,267,061
Natural gas sales (M therms)	2,571,117	2,499,773	2,075,931
Manufactured gas sales (M therms)	119,126	130,079	123,359
Mixed gas sales (M therms)	78,603	81,287	67,771
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of September 30:			
Imports	$264,149,000	$237,634,000	$133,116,000
Exports	78,549,000	87,297,000	37,362,000
Domestic shipments	11,497,000	11,864,000	8,393,000
Domestic warehouse credits	17,532,000	14,062,000	13,069,000
Dollar exchange	2,268,000	1,372,000	1,256,000
Based on goods stored and shipped between foreign countries	23,137,000	21,410,000	13,973,000
Total	$397,132,000	$373,639,000	$207,169,000
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of September:			
New England	$17,850,803	$34,639,026	$24,926,950
Middle Atlantic	64,278,712	94,483,711	89,269,025
South Atlantic	41,685,633	49,473,698	36,106,700
East Central	94,648,731	124,262,683	80,402,401
South Central	74,086,205	101,389,778	57,414,721
West Central	29,289,999	35,749,481	33,356,720
Mountain	15,958,670	19,413,134	11,482,028
Pacific	70,438,240	91,586,462	58,024,178
Total United States	$408,266,993	$550,997,973	$390,982,723
New York City	30,673,613	37,858,882	48,294,981
Outside of New York City	377,593,380	513,139,091	342,687,742
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of September:			
Manufacturing number	147	173	183
Wholesale number	69	70	82
Retail number	314	402	329
Construction number	75	91	71
Commercial service number	43	51	67
Total number	648	787	732
Manufacturing liabilities	$5,855,000	$7,225,000	$9,379,000
Wholesale liabilities	1,871,000	2,228,000	2,853,000
Retail liabilities	4,775,000	5,685,000	4,929,000
Construction liabilities	1,303,000	1,233,000	2,148,000
Commercial service liabilities	1,450,000	2,077,000	1,289,000
Total liabilities	$15,254,000	$18,448,000	$20,598,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Sept. 30 (000's omitted)	$308,000	$286,000	$265,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of September	323.7	*348.7	282.5
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters prior to October 1	2,770,392	------	5,306,453
COTTON PRODUCTION — U. S. DEPT. OF AGRICULTURE—As of October:			
Production 500-lb. gross bales	9,869,000	9,882,000	16,127,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of September:			
Earnings—			
All manufacturing	$60.53	*$60.32	$55.72
Durable goods	64.90	*64.33	58.84
Nondurable goods	55.42	*55.65	52.59
Hours—			
All manufacturing	40.9	41.2	39.6
Durable goods	41.6	*41.8	39.7
Nondurable goods	40.1	*40.3	39.6
Hourly earnings—			
All manufacturing	$1.480	*$1.464	$1.407
Durable goods	1.560	*1.539	1.482
Nondurable goods	1.382	1.374	1.328
FAIRCHILD PUBLICATION RETAIL PRICE INDEX — 1935-39 = 100 (COPYRIGHTED AS OF OCT. 1):			
Composite index	141.5	*139.8	137.1
Piece goods	132.0	130.5	128.8
Men's apparel	140.1	139.2	138.8
Women's apparel	132.0	*131.0	130.9
Infants' and children's wear	131.8	130.5	130.1
Home furnishings	153.8	151.4	144.9
Piece goods—			
Rayons and silks	113.9	113.7	116.5
Woolens	145.2	144.0	139.7
Cotton wash goods	151.8	149.3	144.0
Domestics—			
Sheets	181.7	176.6	165.4
Blankets and comfortables	150.5	149.0	141.9
Women's apparel—			
Hosiery	104.4	102.8	102.9
Aprons and housedresses	142.0	142.0	142.3
Corsets and brassieres	133.2	131.2	131.7
Furs	139.4	138.4	138.6
Underwear	134.3	133.4	133.6
Shoes	142.7	141.7	140.4
Men's apparel—			
Hosiery	141.9	140.9	139.5
Underwear	155.0	152.2	152.2
Shirts and neckwear	129.6	129.5	129.5
Hats and caps	127.2	127.2	127.4
Clothing including overalls	131.5	131.5	131.4
Shoes	173.4	170.7	168.0
Infants' and children's wear—			
Socks	130.4	130.4	131.1
Underwear	121.4	119.3	119.8
Shoes	147.8	146.1	114.5
Furniture	151.2	149.7	146.6
Floor coverings	176.5	171.9	153.2
Radios	120.7	119.1	117.7
Luggage	132.4	130.3	129.8
Electrical household appliances	143.4	141.2	138.8
China	133.1	132.9	124.1
METAL OUTPUT (BUREAU OF MINES)— Month of August:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	79,749	*72,525	†62,729
Gold (in fine ounces)	219,858	*199,457	†165,982
Lead (in short tons)	35,283	*31,162	†34,159
Silver (in fine ounces)	3,672,711	*3,107,754	†2,889,579
Zinc (in short tons)	54,484	*48,372	†49,433

*Revised. †Monthly average 1949.

Continued from first page

What Controls Do We Need?

it requires the full dedication of all our resources, and not partial dedication. We all know that we must start now, and not later on. We all know that it will be a long, hard pull, and not a short one.

What Constitutes All-Out Effort?

There is no solid difference of opinion anywhere on any of these points. The specific issue which must still be resolved is only this: What constitutes an all-out effort? How best can we marshal and employ all our strength? Let me illustrate by analogy.

If one Olympic athlete enters a three-mile marathon and another a 100-yard dash, they both need to make an all-out effort. But if the long-distance runner races the first 100 yards in 9 2/5 seconds, he will end the marathon last and not first. The *kind* of all-out effort must be adjusted to the nature of the race.

After Pearl Harbor, the kind of all-out effort we had to make was well defined. We undertook a terrific military build-up, at full speed. Our armed forces rose to a peak of about 12 million. Our war expenditures reached a peak of about $90 billion annually. Directly and indirectly, the war effort absorbed about 40% of our total national production. Economic policy had to be geared accordingly. It required tremendous limitations upon goods for industrial and consumer use. While this somewhat impaired our long-range economic strength, we had to do it. And we could afford to do it, during the limited period for which an all-out war was likely to last.

But only disaster would result from blindly copying now what we did after Pearl Harbor or in 1944. To do that, allowing for the country's growth, we would now be recruiting an armed force of about 15 million. We would now be planning to spend far above $100 billion a year for military purposes. Any such program would probably make another world war inevitable; and if that did not happen, supporting so great a military burden for indefinite years would gradually drain our strength. Instead, we are now undertaking a substantial but gradual build-up of military strength. The goal, according to the President's most recent statements, is less than a third as high as the peak of World War II. We seek, in combination with the other free peoples of the world, to build up enough actual strength to deter aggression, and to be well-poised for still further military expansion if necessary.

Correspondingly, our efforts on the economic front must be synchronized with the defense program we are now undertaking. We do need substantial controls now, to divert goods from industrial and civilian use to military use more rapidly than production can be built up. But we do not need as many or as tough controls as in 1944, because the transition to military activity is not nearly so rapid or so great. If we imposed all of these controls now, it would not simply be "too much too soon." It would be the wrong thing at the wrong time, because it would get the military program and the economic program all out of balance.

Excess Controls Would Discourage Maximum Production

More important, while controls and production are not conflicting objectives, controls in excess of necessity would discourage maximum production for the long pull. And this emphasis upon production is even more important than during World War II, because of the indefinite duration of the problem now confronting us. This indefinite duration requires us to keep our industrial power strong and to make it stronger, so that the military load will become easier to bear later on than in the first year or two, and so that our economic power will remain intact against any possibility of some greater crisis later on despite our best efforts to avert it. The indefinite duration of the problem also warns us against cutting too heavily into the civilian economy, not because we place more emphasis on butter than on guns, but rather because civilian efficiency and morale and hope are essential supports for a heavy defense effort of uncertain length.

The central task of economic policy is to achieve and maintain the balance among military strength, industrial strength, and civilian strength which will maximize our total strength, for as far into the future as we can see. Toward this end, expansion of production is relatively more important than controls, because we cannot know how long the pull will be, and in the long run producing more gives us more strength than just dividing up what we have.

To be sure, substantial controls, even beyond those already applied, will be needed, because the immediate military build-up cannot be matched by enough additional production right away. That is why the government has already issued drastic credit controls to cut down on housing, automobiles, and other durables. That is why we must look forward to additional regulations, allocating materials in short supply and placing limitations upon nonessential use of vital goods. That is why we should also look forward to additional tax increases, far greater than the $4½ billion increase recently enacted. The burden of the enlarged defense program must be borne by all of us, whether or not we pay for it by taxes. Taxes are merely the most economical and businesslike way of carrying the burden. The inflationary consequence, when tax policy is too weak, is for everybody the worst and most dangerous way of carrying the burden. Public support should also be given unstintingly to the Treasury Savings Bond campaign. If all of those fundamental measures are used vigorously to cut down excess purchasing power and thus to prevent civilian demand from exceeding civilian supply, we may be able to get by without the general wage and price controls which are so complex and cumbersome and difficult, particularly in peacetime, although it is imperative that an efficient organization is being set up to deal with price and wage controls to the extent that these become necessary.

But preoccupation with controls should not further divert public attention from the truth that production, and still more production, is the greatest of all the non-secret weapons in the arsenal of American democracy.

Instead of calling unreflectively for reimposition of all the controls of 1944, without testing their relevance to our current situation, let us examine the significance of production in the winning of World War II and its significance today.

In the war years from 1939 to 1944, the United States increased its total annual output—allowing for changes in the price level—by about 75%. If this gain had been 35% instead of 75%, we might well have lost the war no matter what other measures we adopted.

Production Potential Greater Than in World War II

As we now look a few years ahead, our potential for expanding production is far greater than it was at the outset of World War II. True, there are far fewer unemployed to be drawn upon. But this is more than counterbalanced, because the military build-up now contemplated will not draw even one-third as many from production into the armed forces as were drawn in during World War II. And in plant and equipment, science and invention, capable management and skilled workers, our economy is incomparably better prepared for growth over the next five years than in the five years between 1939 and 1944. All that we need is an equal sense of urgency.

If we could increase our total annual output by 75% within the next five years as we did in that earlier five-year period, this total would rise from about $280 billion now to almost $500 billion. If these figures sound fantastic, it is only because America's greatest non-secret weapon has not been fully unsheathed. On sober analysis, could not a production record made during years when we were fighting a hot war all over the globe be repeated in the years immediately ahead? But in order to be conservative, let us assume that we do only *a third as well* in the next five years as we did between 1939 and 1944. Even this gain—about 25%—would lift our annual output from about $280 billion now to about $350 billion by 1955. This rate of growth would be ample to support any defense effort now in contemplation, build up further our industrial equipment and productive power, and maintain standards of living at levels adequate to support the defense effort.

The Present Purpose of Controls

Now, what is most needed to draw this mighty non-secret weapon from its scabbard and bring it into full use?

First of all, economic controls should be used as aids to needed types of production, rather than to embarrass such production or in lieu of productive effort. For example, taxation high enough to combat inflation should not lead to taxation which dampens necessary production. Credit controls to cut back on non-essentials should not shut off funds for the kinds of expansion that we need. There is a superficial appeal in the idea that everything should be frozen where it is. But to win our way through, we do not want to freeze but rather to release and accelerate the dynamic drive of our economic system.

These dynamic qualities are not in any one place. They are all over the country, in factories and on farms, in mines and in business offices, in private organizations and at every level of public responsibility. The Government can provide some specific spurs to this native dynamism: For example, by carefully chosen financial backing and tax incentives where necessary. The Government can also remove some of the road blocks: For example, by improved information concerning over-all requirements. But perhaps the greatest single aid would be for the Government to extend its leadership in setting some over-all targets or goals — by stating in broad outline what we as a nation can accomplish when we all pull together.

A few years back, I advocated common agreement on a national prosperity budget, as a symbol and beacon to all of what the United States could register by way of peacetime progress. I now feel that our national effort to help make the free world secure should be translated increasingly into a concrete program, understandable both at home and abroad. This program might reveal and periodically revise, as specifically as feasible, the relative magnitudes of the tasks before us—the military task, the civilian task, the industrial task, the international task. It might highlight a few of the core components of these tasks, such as the need not only for weapons but also for steel and freight cars and power. It might also uncover the bright prospect for fulfilling these tasks, if our native endowments are fully used.

What might be the benefits of this progressively affirmative approach?

First, this affirmative approach, with accent upon production, would confront the dictators with the weapons we use best. Although we need substantial controls, we cannot by controls devote as large a portion of our national product as the Russians do to military purposes, because we are not willing to degrade the living standards of our people or make them slaves to a war machine. But we can out-produce the Russians sufficiently to maintain the precious values of our system, and at the same time checkmate their aggressive military strength.

Second, this affirmative approach, with the accent upon production, would provide a framework for understanding and cooperation among management, labor, agriculture, and Government. By enabling each segment of the economy to see the job as a whole, and better to appreciate the reasons underlying public policy, it would become easier for each to do its part.

Concentrate More On What We Can Do

Third, an affirmative program would help us to commiserate less about what we must *do without*, and focus more on what we *can do*. We should be prepared to make some sacrifices, but sacrifice is a negative concept which cannot take the place of positive service. Business will have to sacrifice some of the profits which might be permissible in happier times; but it is even more important that business render more service by utilizing technology toward greater production. Labor will have to sacrifice some of the gains which would be desirable in peacetime; but it is even more important that labor render more service by working longer and improving its productivity. Farmers should not expect all the supports which were customary in peacetime; but it is even more important that farmers render more service by producing more and more of the fibers and foods which an expanding economy and an expanding defense effort require. Government must postpone some of the programs which it had hoped to be able to complete; but it is even more important that Government render more service by executing vigorously the programs—both economic and military—which are essential to our salvation.

Fourth, this affirmative projection of what we can do, and how we propose to do it, can fire the American people with a resolution based not on despair but rather on hope, not on fear but rather on courage. The road ahead of us reminds me somewhat of a dark passage, far less pleasant than the sunshine of established peace, in some respects chilly and foreboding. I think that the American people are willing to undertake this passage. But they want to sense that the passage is not endless and that the destination is clear and rewarding. They must feel that the task which they are attempting is doable and not impossible; and that in the defense effort they need not abandon all the other aspirations around which their lives center.

Fifth, a full and open portrayal of what we can accomplish, matched by determination to reach our goals, will powerfully affect the rest of the world. The men in the Kremlin may continue to look lightly upon the military strength of a democracy in peacetime. But they know full well the implications of our industrial and economic power. And when they see that a nation already producing almost half of the industrial goods of the world is girding itself to produce 25 to 75% more within the next five years, then even these men in the Kremlin may hesitate to commit their more limited resources to the furtherance of aggressive designs.

And sixth, our friends abroad—the free peoples of the world—could find nothing so heartening as a practical demonstration that we have not only the intent but also the means to carry out our great intentions. They too must do their part—both in military and economic matters—but in evaluating what that part should be, let us always remember how small have been our trials, and how large our resources, compared to theirs.

In the case of the American people, the problem of guns and butter is only secondary. The supreme problem for us is the problem of guns and peace—the problem of building up our defenses for peace and not for war. This problem is above all a test of our moral fiber. Instead of bewailing the hardness of the times, we should recognize the greatness of the times. Instead of shrinking from the difficulties ahead, we should rise to the challenge ahead. Instead of talking about sacrifices, we should dedicate ourselves to service. If we act in this vein, nothing within sight is beyond our reach.

Bankers Offer Calif. Elec. Pow. Securities

Offering of $4,000,000 first mortgage bonds, 2⅞% series due 1980, and $2,000,000 3% debentures due 1960 of California Electric Power Co. is being made today (Oct. 26) by Halsey, Stuart & Co. Inc. and Merrill Lynch, Pierce, Fenner & Beane. The bonds are priced at 99½% and accrued interest and the debentures at 101.297% and accrued interest. The underwriters won award of the bonds and debentures at competitive sale on Tuesday (Oct. 24) on a bid of 98.655% for the bonds and 100.577% for the debentures.

Proceeds from the sale of these bonds and debentures and other funds will be used to finance in part the estimated 1951 and 1952 construction program of the company and its subsidiary, Interstate Telegraph Co. During recent months, the estimated construction program for 1951 and 1952 has been expanded because the rate of growth in general business and military requirements is now expected to be higher than was previously anticipated.

California Electric Power Co. is engaged principally in the generation, purchase, transmission, distribution and sale of electric energy in parts of southeastern California and southwestern Nevada. Through its Imperial Ice Division, the company manufactures and sells ice in portions of Imperial County and Riverside County, Cal. Interstate Telegraph Co. supplies telephone and telegraph service principally in California north of San Bernardino in which the company also serves electric energy, also in and around Gardnerville and Minden, Nevada; Markleeville, Cal., and in a part of the resort area on the Nevada shore of Lake Tahoe.

N. Spatter Opens

AZTEC, N. Mex.—N. Spatter is engaging in a securities business from offices at Chaco and Main.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Aeronca Mfg. Corp., Middletown, Ohio
Oct. 2 (letter of notification) $50,000 of 4% convertible promissory notes and 50,000 shares of common stock (latter to be reserved for conversion of notes on basis of 1 share for each $1 unit of notes). **Price**—$2.12½ per $1 unit of notes. **Underwriter**—Greene & Ladd, Dayton, O. **Proceeds**—For working capital. **Office**—Municipal Airport, Middletown, O.

• **American Cladmetals Co., Carnegie, Pa.**
Oct. 19 (letter of notification) 62,000 shares of common stock (par $1). **Price**—At market (about $1.12½ per share). **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To Charles R. Anthony, Chairman of the Board, who is the selling stockholder.

American Loan Co., Indianapolis, Ind.
Oct. 2 (letter of notification) 3,000 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share) and accrued dividends. **Underwriter** — City Securities Corp., Indianapolis, Ind. **Proceeds**—For working capital.

• **American-Marietta Co., Chicago, Ill.**
Oct. 23 filed 150,000 shares of common stock (par $2), of which 100,000 shares will be for the account of the company and 50,000 shares for the account of Grover Hermann, President of the company. **Price**—To be supplied by amendment. **Underwriters**—H. M. Byllesby & Co., Inc. and A. C. Allyn & Co., Inc. **Proceeds**—To be added to general funds and used to replace the funds used in October, 1950 to purchase Master Builders Co. capital stock.

• **American Trusteed Funds, Inc., N. Y. City**
Oct. 18 filed 1,000,000 of Lexington Trust Fund shares. **Price** — At market. **Underwriter** — Corporate Leaders Sales Co., Inc. **Proceeds**—For investment.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applied to (a) redemption at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 shares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

Atlantic City Electric Co. (11/13)
Oct. 18 filed $18,400,000 of first mortgage bonds, series A, due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart Co. Inc.; Union Securities Corp. and Smith, Barney & Co. (jointly); Harriman Ripley & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Blyth & Co., Inc.; The First Boston Corp. **Proceeds**—To redeem a like amount of 3¼% first mortgage bonds due in 1964. **Bids**—Expected to be received up to 11 a.m. (EST) on Nov. 13 at Irving Trust Co., One Wall Street, New York, N. Y.

• **Bank Building & Equipment Corp. of America**
Oct. 16 (letter of notification) 200 shares of common stock (par $3), of which 100 shares are to be sold to Kerwin, Fotheringham & Co. and 100 shares to Monford P. Myers. **Price**—$8.75 per share (net). **Underwriter**—Kerwin, Fotheringham & Co., St. Louis, Mo. **Proceeds**—To selling stockholder.

• **Belnap & Thompson, Inc., Chicago, Ill.**
Oct. 13 (letter of notification) an unspecified number of shares of common stock (par $10), to be offered to executives and employees of company. **Price**—At "current book value," but aggregate offering price will not exceed $240,000. **Underwriter**—None. **Proceeds**—To increase inventories of merchandise. **Office**—1516 So. Wabash Ave., Chicago 5, Ill.

Big West Oil & Gas Co., Dallas, Tex.
Sept 5 filed $1,760,000 of 5% sinking fund debentures due 1965 (convertible into common stock on basis of 200 shares for each $1,000 of debentures). **Price**—To be filed by amendment. **Underwriter**—H. M. Byllesby & Co., Inc., Chicago, Ill. **Proceeds** — For drilling and development expenses and for working capital.

• **Birmingham (Ala.) Fire Insurance Co.**
Oct. 17 (letter of notification) 10,000 shares of common stock to be offered to present common stockholders. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To enlarge insurance business. **Office**—221 No. 21st St., Birmingham, Ala.

Brunner Manufacturing Co., Utica, N. Y.
Oct. 17 (letter of notification) 37,172 1/7 shares of common stock (par $1) being offered to common stockholders of record Oct. 24 at rate of one share for each seven shares held; rights expire Nov. 8. **Price**—$6 per share. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Proceeds**—For general corporate purposes.

• **Buffalo-Eclipse Corp.**
Oct. 20 (letter of notification) an undetermined number of shares of common stock (par $1) for a total of just less than $100,000. **Price**—To be sold at open market between Oct. 25, 1950 and Sept. 30, 1951. **Underwriter**—None. **Proceeds**—To Julia Cary Plumb, of Buffalo, N. Y., the selling stockholder. **Office**—101 East Ave., North Tonawanda, N. Y.

• **Burlingame-Formula Investors Fund, Boston, Massachusetts**
Oct. 19 filed 100,000 shares (par $1) of beneficial interest in the Fund. **Price**—At net asset value per share plus underwriting charge. **Underwriter**—Formula Plan Investment Management Corp.

Carolina Casualty Insurance Co., Burlington, North Carolina
Oct. 2 (letter of notification) 50,000 shares of class B (non-voting) common stock (par $1) to be offered to present stockholders on basis of one share for each five shares held. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To increase capital stock and surplus.

• **Central Power & Light Co. (11/28)**
Oct. 23 filed $10,000,000 of first mortgage bonds, series C, due Nov. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Union Securities Corp.; The First Boston Corp.; Blyth & Co., Inc., Harriman Ripley & Co. Inc. and Stone & Webster Securities Corp. (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly). **Proceeds**—To repay $750,000 of bank loans and to reimburse the company in part for capital expenditures.

• **Citizens Casualty Co. of New York**
Oct. 19 (letter of notification) 4,000 shares of $1.25 prior preferred stock, to be offered to all stockholders of record Oct. 23 on basis of one for each seven preferred shares held and one for each 70 shares of common shares held; rights to expire on Nov. 15, 1950. **Price**—At par, $25 per share. **Underwriters**—Mohawk Valley Investing Co., Utica, N. Y., and Security and Bond Co., Lexington, Ky. **Proceeds**—For general corporate purposes.

Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.
Sept. 28 filed 500,000 shares of common stock to be sold to cooperative members. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To reduce obligation to Cooperative G.L.F. Holding Corp. **Business**—Farm cooperative.

Cooperative G. L. F. Holding Corp.
Sept. 28 filed 25,000 shares of 4% cumulative preferred stock to be sold to patrons of Grand League Federation Exchange. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To reduce bank debt. **Business**—Property holding and financing instrumentality for G.L.F. Exchange, farm cooperative.

Cribben & Sexton Co., Chicago, Ill.
Oct. 2 (letter of notification) 1,000 shares of common stock (par $5). **Price**—$4.50 per share. **Underwriters**—David A. Noyes & Co. and Swift, Henke & Co., Chicago, Ill. **Proceeds**—To Robert C. Caldwell, a director, the selling stockholder.

Crown Finance Co., Inc., N. Y. City (10/30)
Oct. 9 (letter of notification) $200,000 of 5% subordinated debentures due 1980. **Price**—At par. **Underwriter**—Hodson & Co., Inc., New York. **Proceeds**—To reduce debt, for expansion and for general corporate purposes. **Office**—50 Church Street, New York 7, N. Y.

• **Culver Corp., Chicago, Ill.**
Oct. 23 filed 132,182 shares of common stock (par $5), of which 4,818 shares are to be offered to stockholders and 127,364 shares to public. **Price** — To stockholders at $5 per share and to public at $6.25 per share. **Underwriter**—None. **Proceeds**—For investments.

• **Dawson Tool Armoring Co., Butte, Mont.**
Oct. 16 (letter of notification) 6,000 shares of capital stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 603, Butte, Mont.

Drayer-Hanson, Inc., Los Angeles, Calif.
Oct. 3 (letter of notification) 255,033 shares of common stock offered to stockholders on a pro rata basis; rights expire Dec. 15, 1950. **Price**—At par (40 cents per share). **Underwriter**—None. **Proceeds**—To pay creditors' claims and for working capital. **Address**—P. O. Box 2215, Los Angeles, Calif.

Ekco Products Co., Chicago, Ill.
Oct. 12 (letter of notification) 8,461 shares of common stock (par $2.50). **Price**—$13 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1949 No. Cicero Ave., Chicago, Ill.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. **Price**—To be filed by amendment, along with dividend rate. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Statement may be withdrawn. It was reported on Oct. 5 that company has completed purchase of El Monte plant.

• **Forest Lawn Co., Glendale, Calif.**
Oct. 16 (letter of notification) $295,000 of 3% debentures, Series F, due 1970, to be sold to Forest Lawn Memorial-Park Association, Inc. **Price**—At par and accrued interest. **Underwriter** — None. **Proceeds**—For capital improvements and to repay indebtedness. **Office**—1712 S. Glendale Ave., Glendale, Calif.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25¢). **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Statement withdrawn Oct. 16.

Government Employees Corp., Washington, D.C.
Sept. 26 filed 30,000 shares of capital stock (par $5), to be offered to stockholders of record Oct. 31 on the basis of one share for each share held; rights to expire Nov. 20. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For additional capital funds. **Business** — Automobile financing.

Greenwich Gas Co., Greenwich, Conn.
Sept. 1 (letter of notification) 8,000 shares of $1.50 preferred stock (no par) and 9,777 shares of common stock (no par), to be offered first to stockholders. **Price**—Of preferred, $25 per share, and common $10 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loan and for working capital.

Gulf Power Co. (11/13)
Oct. 13 filed 51,026 shares of preferred stock (par $100), of which 11,026 shares are to be offered in exchange, share for share, for outstanding $6 preferred stock; the remaining 40,000 shares to be offered publicly. **Underwriter**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Equitable Securities Corp.; Lehman Brothers; Harriman Ripley & Co., Inc. **Proceeds**—To redeem $6 preferred stock, to repay bank loans and for new construction. **Exchange Offer**—Tentatively scheduled to be made Nov. 14; to expire Nov. 27. **Public Offering**—Scheduled for Nov. 14. **Bids**—Expected to be opened at 11 a.m. (EST) on Nov. 13 at Suite 2000, 20 Pine St., New York, N. Y.

Gulf States Utilities Co. (11/21)
Oct. 17 filed 70,000 shares of preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Lehman Brothers and Equitable Securities Corp. (jointly); Union Securities Corp.; First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Carl M. Loeb, Rhoades & Co. and Lee Higginson Corp. (jointly). **Proceeds**—For construction program. **Bids**—To be received up to 11 a.m. (EST) on Nov. 21 at The Chase National Bank of the City of New York, Room 735, 11 Broad St., New York, N. Y. Stockholders to vote on approving issue on Nov. 20.

Hagerstown (Md.) Gas Co.
Sept. 28 filed 32,000 shares of common stock (par $1.25). **Price**—$10 per share. **Underwriters**—Harrison & Co. and Walston, Hoffman & Goodwin, of Philadelphia, Pa. **Proceeds**—To a selling stockholder.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional lines of insurance, including automobile casualty and liability coverage.

Hooper Telephone Co., Hooper, Neb.
Aug. 18 (letter of notification) $30,000 of 3¾% bonds due 1970. **Price**—In excess of 102%. **Underwriter**—Wachob Bender Corp., Omaha, Neb. **Proceeds**—To retire temporary loans.

Hub Loan Co., Jersey City, N. J.
Sept. 18 (letter of notification) 100,000 shares of 18 cents cumulative convertible preferred stock (par $2). **Price**—$3 per share. **Proceeds**—For working capital.

• **Hubbs Corp., New York**
Oct. 17 (letter of notification) 33,975 shares of common stock (par $1). **Price**—$5.27 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—383 Lafayette St., New York 3, N. Y.

Industrial Coatings Inc., Opa Locka, Fla.
Oct. 4 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—Carl J. Bliedung, Washington, D. C. **Proceeds**—To reduce liabilities and to expand company's roof-proofing and industrial coatings plant. **Office**—2600 Ali Baba Ave., Opa Locka, Fla.

• **Jefferson Manor Realty Corp., Alexandria, Va.**
Oct. 16 (letter of notification) 554 shares of common stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For dealings in real estate. **Office**—342 Fairhaven Ave., Alexandria, Va.

Kansas Gas & Electric Co. (11/20)
Oct. 10 filed 75,000 shares of common stock (no par) and 45,000 shares of cumulative preferred stock (par $100). Probable bidders: (1) for both issues: Blyth & Co., Inc. **Underwriters**—To be determined by competitive bidding. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; (2) on common stock only: Glore, Forgan & Co.; (3) on preferred stock only: White, Weld & Co. and Shields & Co. (joint-

ly); Halsey, Stuart & Co. Inc. **Proceeds**—To pay construction costs, amounting to about $19,500,000 through 1952. **Bids**—Expected to be received on Nov. 20 up to 10:30 a.m. (EST) for the common and up to noon (EST) for the preferred.

Kaye-Halbert Corp., Culver City, Calif.
Oct. 6 by amendment filed 120,000 shares of class A convertible common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—To pay off promissory notes and for working capital.

● **Keystone Custodian Funds, Inc., Boston, Mass.**
Oct. 24 filed 500,000 shares of series B-3 certificates of participation, 1,000,000 shares of series B-4 certificates of participation, 500,000 shares of series K-1 certificates of participation, 25,000 shares of series S-1 certificates of participation, and 500,000 shares of series S-4 certificates of participation (all $1 par value each). **Underwriter**—The Keystone Co. of Boston. **Business**—Investment company.

● **Lancaster Chemical Corp. (10/30)**
Oct. 23 (letter of notification) 100,000 shares of 6% (cumulative, if earned) convertible preferred stock, to be offered to common stockholders of record Oct. 18 on a pro rata basis; rights expire Nov. 30. **Price**—At par ($2.50 per share), payable in cash or at rate of one common share (par $1) plus 50 cents in cash. **Underwriter**—None. **Proceeds**—For working capital. **Office**—620 Fifth Ave., New York 20, N. Y.

Lorain Telephone Co.
Oct. 5 (letter of notification) 2,830 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 9th St., Lorain, Ohio.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per share plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

Louisiana Power & Light Co. (11/14)
Oct. 10 filed $10,000,000 of first mortgage bonds, due Nov. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); Blyth & Co., Inc.; Harriman, Ripley & Co. Inc.; Shields & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; W. C. Langley & Co., The First Boston Corp. and Glore, Forgan & Co. (jointly); Equitable Securities Corp. **Proceeds**—For construction program. **Bids** — Expected to be received up to noon (EST) on Nov. 14 at Room 2033, Two Rector Street, New York, N. Y.

● **McCoy-Couch Furniture Mfg. Co., Benton, Ark.**
Oct. 16 (letter of notification) 12,000 shares of common stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds** — To repay RFC loan and to increase working capital. **Address**—P. O. Box 312, Benton, Ark.

McDonnell Aircraft Corp., St. Louis, Mo.
Sept. 27 filed 40,000 shares of common stock (par $1). **Price**—At market (estimated at $35.50 per share) to be offered over-the-counter. **Underwriter**—Brokers and/or dealers may be underwriters. **Proceeds**—To five selling stockholders.

Mercantile Acceptance Corp. of California
Oct. 5 (letter of notification) 1,395 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Underwriter**—Guardian Securities Corp. of San Francisco. **Proceeds**—For corporate purposes. **Office**—333 Montgomery Street, San Francisco, Calif.

Michigan Consolidated Gas Co. (11/13)
Oct. 16 filed $20,000,000 first mortgage bonds due Nov. 1, 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. Inc. **Proceeds**—From sale of bonds, together with $6,000,036 to be received from sale of 428,574 shares of common stock to American Natural Gas Co., the parent, to be used to retire $15,000,000 bank borrowings and to finance, in part, the company's extensive construction program. **Bids**—Expected to be opened at 11 a.m. (EST) on Nov. 13 at office of company, 415 Clifford Street, Detroit, Mich.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries—Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co. **Underwriter**—Equitable Securities Corp will serve as "dealer-manager." Statement to be withdrawn.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

● **Midland Oil Co., Cheyenne, Wyo.**
Oct. 16 (letter of notification) 170,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds** — For drilling rig and working capital. **Office**—412 Hynds Bldg., Cheyenne, Wyo.

NEW ISSUE CALENDAR

October 30, 1950
Crown Finance Co. — **Debentures**
Lancaster Chemical Corp. — **Preferred**
Milwaukee Gas Light Co., 11 a.m. (EST) — **Bonds & Debentures**
Monarch Radio & Television Corp. — **Common**
Western New York Motor Lines, Inc. — **Debs. & Com.**

October 31, 1950
Niagara Mohawk Power Corp., 11:30 a.m (EST) — **Bonds**

November 1, 1950
West Coast Telephone Co. — **Common**

November 2, 1950
Chicago & Eastern Illinois RR. — **Equip. Trust Ctfs.**

November 13, 1950
Atlantic City Electric Co., 11 a.m. (EST) — **Bonds**
Gulf Power Co., 11 a.m. (EST) — **Preferred**
Michigan Cons'dated Gas Co., 11 a.m. (EST) — **Bonds**

November 14, 1950
Louisiana Power & Light Co., noon (EST) — **Bonds**
Norris Stamping & Mfg. Co. — **Common**
Penton Publishing Co. — **Class A**

November 15, 1950
Wisconsin Pub. Serv. Co., 10:30 a.m. (CST) — **Bonds**

November 20, 1950
Kansas Gas & Elec. Co., 10:30 a.m. (EST) — **Common**
Kansas Gas & Electric Co., noon (EST) — **Preferred**

November 21, 1950
Gulf States Utilities Co., 11 a.m. (EST) — **Preferred**
Hawaii (Territory of) — **Common**

November 28, 1950
Central Power & Light Co. — **Bonds**

November 29, 1950
Missouri-Kansas-Texas RR. — **Equip. Trust Ctfs.**

December 1, 1950
American Investment Co. of Illinois — **Common**

December 4, 1950
Minnesota Power & Light Co. — **Common**
Southwestern Gas & Electric Co. — **Bonds**

December 11, 1950
Carolina Power & Light Co. — **Bonds**

December 12, 1950
Metropolitan Edison Co. — **Bonds & Pfd.**

Milwaukee Gas Light Co. (10/30)
Oct. 2 filed $27,000,000 of first mortgage bonds, series due 1975, and $6,000,000 of sinking fund debentures due Nov. 1, 1970. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Lehman Brothers (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co.; Otis & Co.; Smith, Barney & Co., Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly). **Proceeds** — From sale of bonds and debentures, together with $3,000,000 to be received from sale of new common stock to American Natural Gas Co., the parent, will be used to pay off $13,334,000 outstanding 4½% first mortgage bonds due 1967 and $4,050,000 of 2¾%-3% serial notes and $6,100,000 of bank loan notes; to retire $2,000,000 of 7% cumulative preferred stock, series A (par $100); and for construction program. **Bids**—To be opened at 11 a.m. (EST) on Oct. 30 at office of parent, Suite 1730, 165 Broadway, New York, N. Y.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). **Proceeds**—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp (jointly), $100.30 with a $4.90 dividend; and Blyth & Co. Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

Monarch Radio & Television Corp. (10/30)
Sept. 8 (letter of notification) 600,000 shares of common stock (par 5 cents). **Price**—50 cents per share. **Underwriter**—George J. Martin Co., New York. **Purpose**—For expansion and working capital. **Office**—2430 Atlantic Avenue, Brooklyn 7, N. Y. Expected next week.

Montana Power Co.
Sept. 25 filed $10,000,000 of 25-year sinking fund debentures due Oct. 1, 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); White, Weld & Co.; Lehman Brothers. **Proceeds**—To repay bank loans and for expansion and extension of gas and electric properties. **Offering**—Originally scheduled for Oct. 31 has been postponed for at least six to nine months. Temporary bank borrowings will be arranged.

Morris Plan of America, New York
Sept. 21 filed 389,449 shares of common stock (par $5), offered to common stockholders of record Oct. 19 at rate of one share for each four shares held, with an oversubscription privilege; rights expire on Nov. 14. **Price**—At par. **Underwriter**—None. **Proceeds**—To invest proceeds in its wholly-owned subsidiary, National Industrial Credit Corp., which will use the funds to discharge an indebtedness to American General Corp. Statement effective Oct. 16.

Multnomah Plywood Corp., Portland, Ore.
Sept. 18 filed 160 shares of common stock of which 145 shares will be offered to stockholders and 15 shares to certain individuals. **Price**—At par ($2,500 per share). **Underwriter**—None. **Proceeds**—For costs involved in competition and expansion of plan and for working capital.

Nash-Finch Co., Minneapolis, Minn.
Sept. 11 (letter of notification) 3,000 shares of common stock. **Price**—From $17 to $20 per share. **Underwriter**—J. M. Dain & Co., Minneapolis, Minn. **Proceeds**—To Finch Investment Co.

Nepera Chemical Co.
Sept. 28 filed 490,000 shares of common stock (par $2). **Price**—To be filed by amendment (probably around $12.75 per share). **Underwriter**—Reynolds & Co., New York. **Proceeds**—To five selling stockholders. **Business** — Production of Anahist and other pharmaceuticals. Statement withdrawn on Oct. 17.

New Bedford Gas & Edison Light Co.
Sept. 14 filed 17,717.8 shares of common stock (par $25) to be offered to common stockholders of record June 14, 1950 on basis of one share for each 15 shares then held. New England Gas & Electric Association (owner of 97.37% of the outstanding stock) proposes to purchase any shares not subscribed for by others. **Price**—$67.50 per share. **Proceeds** — To finance property additions. Statement effective Oct. 5.

New Jersey Realty Title Insurance Co.
Oct. 12 (letter of notification) 125,000 shares of capital stock (par $1) to be offered to stockholders of record Oct. 2, 1950, on basis of one share for each two shares held; rights expire Nov. 15. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To be added to capital funds of company and invested in investments. **Office**—830 Broad St., Newark, N. J.

Niagara Mohawk Power Corp. (10/31)
Oct. 4 filed $40,000,000 of general mortgage bonds, due Oct. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; First Boston Corp. **Proceeds**—To pay off $20,000,000 of bank loans, to refund $15,689,000 of Niagara Falls Power Co. first and refunding mortgage bonds, 3½% series due 1950 on basis of one share for each 15 shares then held. 1966, and for construction, additions and betterments. **Bids**—To be received by corporation at Room 735, 11 Broad Street, New York, N. Y. up to 11:30 a.m. (EST) on Oct. 31.

Norris Oil Co., Ventura, Calif.
Oct. 4 (letter of notification) 675 shares of common stock (par $1). **Price**—$4.50 per share. **Underwriter**—None. **Proceeds**—To Halvern L. Norris, a director, who is the selling stockholder. **Office**—182 W. Ramona St., Ventura, Calif. Offering withdrawn.

● **Norris Stamping & Mfg. Co. (11/14)**
Oct. 24 filed 190,000 shares of common stock (par $1). **Price**—$12 per share. **Underwriters**—William R. Staats Co., Los Angeles, Calif., and A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—To Kenneth R. Norris, President, the selling stockholder.

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

Ohio Edison Co., Akron, Ohio
Sept. 15 filed 396,571 additional shares of common stock (par $8) being offered to common stockholders of record Oct. 11, 1950 at rate of one share for each 10 shares held, with an oversubscription privilege; rights to expire on Oct. 30, 1950. **Price**—$28 per share. **Underwriters**—Lehman Brothers and Bear, Stearns & Co. **Proceeds**—For construction program and to increase investment in common stock of Pennsylvania Power Co., a subsidiary. Statement effective Oct. 4; amendment effective Oct. 12.

● **Pennsylvania & Southern Gas Co., Westfield, New Jersey**
Oct. 19 (lettetr of notification) 1,850 shares of 6½% cumulative preferred stock, series C. **Price**—At par ($100 per share). **Underwriter**—Bioren & Co., New York. **Proceeds**—For advances to subsidiaries for capital expenditures and in part for working capital.

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Penton Publishing Co., Cleveland, O. (11/14)
Oct. 17 filed 80,000 shares of $1.50 convertible class A stock (par $25), to be offered to holders of presently outstanding 20,078 shares of $100 par 7% preferred stock on basis of 5½ shares of new class A stock in exchange for each share of 7% preferred subject to acceptance by not less than 12,000 shares of 7% preferred, nor by more than 14,545 shares. The exchange offer is expected to be made on or about Nov. 14 and will expire 10 days later. **Underwriter**—Maynard H. Murch & Co., Cleveland, Ohio. **Proceeds**—Toward redemption of 7% preferred stock and payment of accrued dividends.

Quaker City Fire & Marine Insurance Co.
Aug. 2 (letter of notification) 10,000 shares of capital stock (par $20) to be offered on a one-for-four basis to stockholders of record Oct. 20, 1950, with the rights expiring Dec. 4, 1950. **Price**—$25 per share. **Underwriter** — Unsubscribed shares to be offered publicly through Burton, Cluett and Dana, 120 Broadway, New York, N. Y. **Proceeds**—For working capital. **Office**—226 Walnut Street, Philadelphia 6, Pa.

Ramie Products Corp.
Sept. 21 (letter of notification) 25,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—Smith, Talbott & Sharpe, Pittsburgh, Pa. **Proceeds**—For purchase of additional machinery and equipment and working capital. **Office**—507 Liberty Avenue, Pittsburgh 22, Pa.

Rochester (N. Y.) Telephone Corp.
June 29 filed 125,000 shares of common stock (par $10) being offered to stockholders at rate of one new share for each four held on Oct. 13; rights to expire Oct. 31. **Price**—$11.50 per share. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For general corporate purposes, including construction and repayment of a loan. Statement effective Oct. 16.

● **Rohr Aircraft Corp., Chula, Vista, Calif.**
Oct. 25 filed 238,000 shares of common stock (par $1), of which 100,000 shares are for the account of the company and 138,000 for the account of selling stockholders. **Price**—To be filed by amendment. **Underwriters**—The First Boston Corp., New York, and Lester & Co., Los Angeles, Calif. **Proceeds**—To company to retire outstanding preferred stock and mortgage notes.

Seneca Oil Co., Oklahoma City, Okla.
April 27 (letter of notification) 225,782 shares of class A stock (par 50¢). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital.

Simmel-Meservey Television Productions, Inc.
June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif. Statement to be withdrawn.

● **Skiatron Electronics & Television Corp.**
Oct. 23 (letter of notification) 500 shares of common stock. **Price**—At market (approximately $3.50 per share). **Underwriter**—Hirsch & Co., New York. **Proceeds**—To Janet Robinson, a selling stockholder. **Office**—30 East 10th St., New York, N. Y.

Southern Discount Co., Atlanta, Ga.
Sept. 18 (letter of notification) $191,500 of 5% subordinated debentures, series E. **Price**—At par. **Underwriter**—For $100,000 of debentures, Allen & Co., Lakeland, Fla. **Proceeds**—To reduce bank loans and for working capital. **Office**—220 Healey Bldg., Atlanta, Ga.

Tennessee Gas Transmission Co., Houston, Tex.
Aug. 28 filed 133,334 shares of common stock (par $5) to be issued in exchange for 80,000 shares of common stock of Sterling Oil & Gas Co., and for 10-year subscription warrants to purchase 133,333 shares of Sterling common stock. The rate of exchange is as follows: 1⅔ shares of Tennessee stock for each Sterling share; and one-fifth Tennessee share for each warrant. Offer to expire Nov. 6, unless extended. **Exchange Agent**—The National Bank of Commerce of Houston, Texas. Statement effective Sept. 22.

Tide Water Power Co.
Sept. 27 filed 150,000 shares of common stock (no par). **Price**—To be filed by amendment. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. **Proceeds**—For construction program. Temporarily postponed.

West Coast Telephone Co. (11/1)
Oct. 12 filed 40,000 shares of common stock (par $20). **Price**—To be filed by amendment. **Underwriter**—Blyth & Co., Inc. **Proceeds**—From sale of stock and proposed sale of $1,000,000 first mortgage 3% bonds at 100 are to be used to retire bank loans incurred in acquisition of Telephone Service Co., for advances to said company to complete its 1950 construction program, and for extensions, additions and improvements to its own properties and those of West Coast Telephone Co., a subsidiary and of Telephone Service Co.

Western Natural Gas Co., Houston, Tex.
Oct. 10 filed (amendment) 104,495 shares of common stock (par $1) offered to common stockholders of record Oct. 13, on basis of one share for each ten shares held, with an oversubscription privilege; rights expire Oct. 27. **Price**—$15.75 per share. **Underwriter**—White, Weld & Co. **Proceeds**—To retire bank loans and for general corporate purposes. Statement effective Oct. 13.

● **Western New York Motor Lines, Inc. (10/30)**
Oct. 23 (letter of notification) 2,500 shares of common stock (par $10) and $25,000 of 5% registered sinking fund debentures due 1970, the stock to be offered to common stockholders of record Oct. 20 at rate of one share for each two shares held; rights expire Nov. 15, 1950. **Price**—At par. **Underwriter**—None. **Proceeds**—To purchase omnibus units or to refund obligations incurred for such units. **Office**—Terminal Building, Court and Ellicott Sts., Batavia, N. Y.

● **Western Solvents Inc., Longmont, Colo.**
Oct. 16 (letter of notification) 100,000 shares of common stock (par $1) and 1,523 shares of preferred stock (par $20). **Price**—At par. **Underwriter**—None. **Proceeds**—For current liabilities and working capital. **Office**—1 So. Bowen St., Longmont, Colo.

● **Weymouth Light & Power Co.**
Oct. 17 (letter of notification) 16,298 shares of capital stock (par $25) to be offered to present stockholders. New England Electric System (the parent) proposes to acquire 16,227⅓ shares and any shares not subscribed for by minority stockholders. **Price**—$35 per share. **Underwriter** — None. **Proceeds**—To repay bank loans and advances and for construction expenses.

Wisconsin Public Service Corp. (11/15)
Oct. 16 filed $4,000,000 of first mortgage bonds due Nov. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Robert W. Baird & Co. (jointly); Kidder, Peabody & Co.; Union Securities Corp.; Equitable Securities Corp.; Otis & Co.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; A. G. Becker & Co.; Carl M. Loeb, Rhoades & Co.; Harris, Hall & Co. (Inc.); Shields & Co.; F. S. Moseley & Co. **Proceeds**—From sale of bonds, plus $2,250,000 to be received from sale of stock at par to Standard Gas & Electric Co., will be used to repay $3,300,000 of bank loans and to finance construction program. **Bids**—Expected to be received up to 10:30 a.m. (CST) on Nov. 15 at the Harris Trust and Savings Bank, Chicago, Ill.

Prospective Offerings

● **American Investment Co. of Illinois (12/1)**
Oct. 23 it was announced that company plans to file in the near future a registration statement with the SEC covering up to 100,000 additional shares of common stock (par $1), on the basis of one share for each 20 shares owned. **Price**—To be filed by amendment. **Offering**—Registration statement expected to become effective on or about Dec. 1.

American Telephone & Telegraph Co.
Sept. 20 it was announced stockholders will vote Nov. 15 on approving a new issue of not to exceed $435,000,000 of convertible debentures (to be offered to stockholders) and an increase in authorized capital stock from 35,000,000 to 45,000,000 shares, 3,000,000 shares of the additional stock to be offered to employees of the company and its subsidiaries. Financing expected some time during the first six months of 1951. **Proceeds**—For expansion program.

Carolina Power & Light Co. (12/11)
Oct. 3 it was reported that this company will be in the market, probably in December, with an offering of $15,000,000 of new bonds. Previous debt financing placed privately. If competitive, probable bidders are: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and First Boston Corp. (jointly); Kidder, Peabody & Co.; Lehman Brothers; Equitable Securities Corp. Proceeds will be used for expansion program.

● **Central Hudson Gas & Electric Corp.**
Oct. 25 company announced it has asked New York P. S. Commission authority to issue $12,000,000 of new 30-year first mortgage bonds, of which it plans to sell early in December at least $7,000,000 and the remainder in instalments during the following six months. Previous bond financing was done privately.

● **Chicago & Eastern Illinois RR. (11/2)**
Bids will be received up to noon (CST) on Nov. 2 at the company's office, Room 800, 332 So. Michigan Ave., Chicago 4, Ill., for the purchase from it of $3,270,000 equipment trust certificates, series H, to be dated Dec. 1, 1950 and mature in 30 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Colonial Acceptance Corp., Chicago, Ill.**
Oct. 20 it was reported that it is expected company will file a registration statement in the near future covering an issue of $1,000,000 5% notes, with a 5% participating feature, plus additional common stock. **Underwriters**—Straus & Blosser and Sills, Fairman & Harris.

Commonwealth Edison Co., Chicago
Jan. 10, announced the company plans $90,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; The First Boston Corp.; Glore, Forgan & Co.

Consolidated Edison Co. of New York, Inc.
May 15, Ralph H. Tapscott, Chairman, said the company will require approximately $90,000,000 of "new money" through the sale of securities. No permanent financing is contemplated before this fall, however, and current expenditures are being financed by short-term loans, of which $16,000,000 are now outstanding. It is anticipated that $257,000,000 will be needed for the construction program over the next four years. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp.

Consolidated Lobster Co., Inc.
Aug. 11 it was stated that company plans to offer additional capital stock (no par) for subscription by stockholders. At April 30, 1950 there were outstanding 34,393 shares out of 47,000 shares authorized.

Davidson Bros., Inc.
Oct. 16 stockholders were to vote to waive their preemptive rights to subscribe for 300,000 shares of common stock which are authorized but unissued. It is planned that the company will publicly offer not in excess of 200,000 shares and sell to its employees not over 100,000 shares. **Proceeds**—Will be used for working capital.

El Paso Electric Co.
Sept. 19, F. C. Womack, President, announced company plans to sell $4,500,000 of first mortgage bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Equitable Securities Corp. **Proceeds**—To redeem $1,000,000 of 3½% bonds due 1978 and for construction program. **Offering**—Expected in November.

Eureka Williams Corp.
Oct. 4 it was announced stockholders will vote Oct. 31 on increasing authorized common stock (par $5) from 600,000 shares to 1,000,000 shares so that company may be in a position "to act promptly by broadening the scope of business and operations." Traditional underwriters: Hornblower & Weeks and Kebbon, McCormick & Co.

Facsimile & Electronics, Inc.
Oct. 2 stockholders of this company (formerly Finch Telecommunications, Inc.) voted to create an authorized issue of 400,000 shares of class A convertible stock (par $1), all or part of which are to be publicly offered in the near future. **Price**—$2.50 per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC and for working capital.

Georgia Natural Gas Co., Albany, Ga.
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

● **Hawaii (Territory of) (11/21)**
Oct. 24 a plan to issue and sell $14,000,000 of general improvement bonds was reported to be under consideration. **Underwriters** — To be determined by competitive bidding.

● **Hearn Department Stores, Inc., N. Y. City**
Oct. 16 it was announced that stockholders will vote Nov. 6 on creating an authorized issue of 40,000 shares of 5% cumulative convertible preferred stock (par $25), which are to be offered to present stockholders in the ratio of one preferred for each seven common shares held. Unsubscribed shares will be purchased by Bankers Securities Corp. of Philadelphia. **Proceeds** — From this offering, plus a $2,000,000 term bank loan, will be used to modernize company's stores and to repay certain borrowings.

Illinois Commercial Telephone Co.
Oct. 13 it was reported that company plans issuance and sale of 40,000 shares of preferred stock (par $50). **Price**—To be filed by amendment. **Underwriters**—Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; and Mitchum, Tully & Co. **Proceeds**—For construction program.

Iowa Southern Utilities Co.
April 26 company said to plan sale of first mortgage bonds to finance part of its $3,200,000 construction program for 1950. Probable underwriter: The First Boston Corp.

Johansen Brothers Shoe Co.
Oct. 25 stockholders will vote on proposal to issue and sell $350,000 of 4% sinking fund debentures due 1960. Proceeds to retire outstanding 3½% debentures and for other corporate purposes. Traditional underwriter: Stifel, Nicolaus & Co.

Kansas Gas & Electric Co.
Oct. 10 it was announced that proposed sale of $5,000,000 first mortgage bonds, which had tentatively been scheduled for Nov. 27, has now been deferred, probably until 1951. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds** — For construction program. (See also registration of common and preferred stocks above).

Metropolitan Edison Co. (12/12)
Oct. 9 it was reported company plans to issue and sell in December $5,250,000 of new first mortgage bonds and 20,000 shares of preferred stock (par $100). Proceeds would be applied toward the retirement at maturity of approximately $1,250,000 of 5% non-callable (assumed) bonds of York Haven Water & Power Co., and the balance toward expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; First Boston Corp.; Carl M. Loeb, Rhoades & Co.; Drexel & Co.; Kuhn, Loeb & Co.; Kidder, Peabody & Co.; White, Weld & Co.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Lehman Brothers. (2) For preferred: Drexel & Co.; Smith Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Glore, Forgan & Co. and W. C. Langeley & Co. (jointly). **Registration**—Expected to be filed about Nov. 1.

Michigan Consolidated Gas Co.
Aug. 7 it was announced company contemplates sale in 1951 of about $10,000,000 of preferred stock (in addition to $20,000,000 of bonds filed Oct. 16 with SEC and 428,574 shares of common stock to be sold to parent, American Natural Gas Co.). **Underwriters**—To be determined by competitive bidding. Probable bidders: White,

Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—For construction program.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock (latter to American Natural Gas Co., the parent). Previous debt financing was placed privately. If competitive probable bidders may include The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co.

MidSouth Gas Co.
July 31 it was announced that this newly organized company may issue and sell publicly $2,800,000 of common stock and place privately with institutional investors $6,900,000 of 20-year 3⅝% first mortgage bonds, the proceeds to be used in connection with the acquisition of the gas distribution properties of Arkansas Power & Light Co., which was authorized by SEC on Sept. 7. Initially it is planned to sell $800,000 stock and $1,500,000 of bonds. **Underwriter for Stock**—Equitable Securities Corp., T. J. Raney & Sons and Womeldorff & Lindsay.

Minnesota Power & Light Co. (12/4)
Oct. 3 company announced it plans to issue and sell early in December, 150,000 additional shares of common stock. **Underwriters**—To be determined by competitive bidding. Probable bidders: First Boston Corp. and Blyth & Co., Inc. (jointly); White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co.; Lehman Brothers. Proceeds for construction program. **Bids**—Expected to be received up to noon (EST) on Dec. 4. Registration with SEC planned for Nov. 1.

Mississippi River Fuel Corp., St. Louis, Mo.
Oct. 4 it was announced that plans to finance the installation of additional compressor units on the company's pipeline system in Arkansas and Missouri will be supplied later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

Missouri-Kansas-Texas RR. (11/29)
Oct. 16 it was reported company is planning ot issue $5,700,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.

● **Monongahela Power Co.**
Oct. 20 it was announced that financing plans would be announced later in connection with the construction of a new electric generating station of 150,000 kilowatts capacity at a cost of approximately $20,000,000. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. Probable bidders for preferred stock: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Lehman Brothers; W. C. Langley & Co.; Harriman Ripley & Co., Inc.

Montana-Dakota Utilities Co.
Oct. 11 company asked FPC for authority to issue $2,800,000 of 2½% promissory notes to banks to provide funds for its expansion program. These notes, together with $3,000,000 of notes authorized by FPC last May, are to be refunded by permanent financing before April 1, 1951. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane.

Mountain Fuel Supply Co. of Utah
June 6 company announced plans to create a new firm to take over its exploration and development of natural gas and oil operations. It will be financed, in part, through public sale by the new unit of 1,000,000 shares of capital stock (par $8). Financing plan submitted by First Boston Corp. Expected this Fall.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue this Fall $10,000,000 bonds and 70,000 to 80,000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc. (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred: W. C. Langley & Co.

New Hampshire Electric Co.
Sept. 7 company applied for authority to issue 15,000 shares of $4.50 preferred stock (par $100) and 140,000 shares of common stock (no par) which are to be exchanged for presently outstanding 150,000 shares of common stock (no par) held by New England Gas & Electric Association. Latter plans to dispose of this investment prior to Sept. 1, 1951.

North American Car Corp.
Aug. 15 it was reported that the company is to issue and sell publicly not exceeding 40,000 shares of common stock (par $10). Probable underwriter: Glore, Forgan & Co., New York. The proceeds are to be used for car rebuilding program.

North Penn Gas Co.
Sept. 25 it was announced company plans permanent financing following merger of the Pennsylvania subsidiaries of Pennsylvania Gas & Electric Corp., the parent. **Proceeds**—To retire, in part, proposed bank loans of $3,000,000.

Oklahoma Gas & Electric Co.
Sept. 28 a plan was filed with the SEC, which provides, in part, for the refunding of the outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal par amount of preferred stock having a lower dividend rate "as soon as the transaction becomes economically sound," and to finance part of the company's construction program by the issuance and sale of additional common stock. Stockholders will vote early in November on changing each of the 1,076,900 shares of $20 common stock now outstanding to two shares of common stock, $10 par each; and on changing the 825,000 shares of authorized but unallotted shares, $20 par, of 4% cumulative preferred stock to 165,000 shares of $100 par cumulative preferred stock. Probable underwriters: Harriman Ripley & Co., Inc.; Smith, Barney & Co.

Pennsylvania Electric Co.
Oct. 4 company was reported to be planning the issuance early next year of about $10,000,000 new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc. Proceeds are to be used to finance construction program.

Roosevelt Mills, Inc., Manchester, Conn.
July 20 company was reported to be negotiating with a group of underwriters for a public stock offering of about $150,000 of additional capital stock at $1 or $2 per share. There are presently outstanding 1,381 shares of stock, which are closely held.

San Diego Gas & Electric Co.
July 31 it was reported that the company's original plan to issue between $8,000,000 and $10,000,000 of bonds late this year may be changed to preferred stock, depending upon market conditions. If negotiated, Blyth & Co., Inc., may handle financing. If competitive, probable bidders are: Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Salomon Bros. & Hutzler. Proceeds would go toward construction program.

South Georgia Natural Gas Co., Atlanta, Ga.
Aug. 23 company applied with FPC an amended application for authority to build a 526.9 miles pipe line in Georgia and Florida which, it is estimated, will cost between $10,500,000 and $12,080,000 to be financed by sale of first mortgage bonds and the issuance of junior securities. Probable underwriter: Courts & Co.

Southeastern Michigan Gas Co., Chicago, Ill.
June 12 it was announced company plans issuance and sale of first mortgage bonds, debentures, preferred stock and common stock in connection with its proposed new pipe line in Michigan to cost approximately $1,400,000. Application is before FPC.

Southern California Edison Co.
Sept. 27, W. C. Mullendore, President, announced that company will have to raise $50,000,000 in new capital within the next 18 months to finance its 1951 construction program. Total financing may involve $55,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Shields & Co.

Southern Natural Gas Co.
July 31 proposed financing on a permanent basis was increased from $10,000,000 to $24,000,000 first mortgage bonds, of which $10,000,000 to $12,000,000 may be offered initially and the balance later on. On June 2, SEC approved temporary bank borrowings of up to $20,000,000 to mature July 1, 1951, the proceeds to be used for construction program which was estimated to cost $32,520,000 for 1950-1951 (since reduced). Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); First Boston Corp.

● **Southern Union Gas Co.**
Oct. 20 it was reported company plans to raise between $7,000,000 and $8,000,000 through the sale of new securities next Spring. **Underwriter** — Blair, Rollins & Co., Inc., handled the financing early this year of $18,000,000 of first mortgage 2⅞% bonds and $3,000,000 of 4¾% preferred stock (par $100). **Proceeds**—To repay $3,000,000 of bank loans and for construction expenditures.

Southwestern Gas & Electric Co. (12/4)
Oct. 11 it was reported that this company is planning sale and issuance early in December of $6,000,000 new first mortgage bonds, series D. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, and Carl M. Loeb, Rhoades & Co. (jointly); Lehman Brothers; Equitable Securities Corp.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Otis & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); The First Boston Corp. **Proceeds**—For construction program.

Texas Eastern Transmission Corp.
Oct. 9 it was announced company plans to raise approximately $40,000,000 of equity money, which would be supplemented by approximately $70,000,000 of first mortgage pipe line bonds (latter may be placed privately). **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion program. **Increase in Capitalization**—Stockholders will vote Nov. 3 on authorizing 600,000 shares of preferred stock (par $100) and to increase the common stock from 6,000,000 to 7,500,000 shares.

Texas Illinois Natural Gas Pipeline Co.
Sept. 15 company applied to the FPC for authority to construct approximately 72 miles of new line in Texas at an estimated cost of $11,581,800. It is planned to issue first mortgage bonds for 75% of the required capital and to raise the remaining 25% through the sale of common stock. Probable underwriters—White, Weld & Co. and Glore, Forgan & Co.

Toledo Edison Co.
May 9 it was announced that the company plans to issue and sell $7,500,000 additional first mortgage bonds in December, 1950, and probably additional common stock sometime during 1951, the proceeds to be used to complete expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Kidder, Peabody & Co., White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Inc., Bear, Stearns & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Smith, Barney & Co.; Union Securities Corp.

United Gas Corp.
Oct. 6 it was reported company will probably sell between $100,000,000 and $125,000,000 of new bonds before end of this year, the proceeds to be used to finance construction of 1,130 miles of pipe line, which, it is estimated will cost approximately $115,000,000.

United Gas Pipe Line Co.
July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

United States Pipe Line Co. (Del.)
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

Utah Power & Light Co.
Oct. 17 it was announced that present plans call for the company to offer approximately $12,000,000 of new bonds and about 200,000 additional shares of common stock in 1951 to provide funds for its construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, and Bear, Stearns & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; First Boston Corp., and Blyth & Co., Inc. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); and (2) for stock: Blyth & Co., Inc.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); Lehman Brothers, and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Valley Gas Pipe Line Co., Inc., Houston, Tex.
June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

Warner-Hudnut, Inc.
July 20 change in company's name from William R. Warner & Co., Inc. was approved, but no action was taken on proposed recapitalization plan, due to market conditions. It is planned to file a registration with the SEC covering the sale of approximately 325,000 shares of the proposed new common stock (par $1) to the public through a nation-wide group of underwriters headed by F. Eberstadt & Co., Inc.

● **Washington Water Power Co.**
Oct. 16 company asked SEC permission to increase bank borrowings from $4,500,000 to $7,150,000 in order to meet its construction requirements pending permanent financing. In September, the Washington P. U. Commission denied an application to borrow $3,850,000 additional to retire 35,000 shares of $6 cumulative preferred stock of no par value. Porbable bidders: (1) For stock or bonds: Blyth & Co., Inc.; Smith, Barney & Co. and White, Weld & Co. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly); (2) For bonds only: Halsey, Stuart & Co. Inc.

Western Pacific RR.
Sept. 5 it was announced company plans issuance and sale of $22,000,000 3% first and refunding mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co. Inc.; Lehman Bros. and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To retire $10,000,000 first mortgage 4% bonds and $6,133,000 convertible income 4½% bonds due 2014, and over $5,000,000 "new money." Expected about middle of November.

Worcester County Electric Co.
Sept. 25 a plan was filed with the SEC, the FPC and the Massachusetts Department of Public Utilities providing for the merger with this company of seven other subsidiaries of New England Electric System, following which Worcester County proposes to issue and sell $12,000,000 of first mortgage bonds to retire bank loans of the companies participating in the merger. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; First Boston Corp.; Harriman Ripley & Co., Inc.

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Partial War and Economic Expansion

income. Even higher taxes and surtaxes continued over a decade will have their impact upon individual initiative, upon business incentives and upon the venturing of risk capital. The "it's only 10%" argument, therefore, conceals rather than reveals the giant dimensions and economic repercussions of a prolonged program of semi-war or semi-peace.

The second aspect worthy of stress can be indicated under the familiar heading of guns and butter. The rate of economic expansion under partial war, so the argument goes, will be greatly accelerated under the influence of government spending. Admittedly the absolute amounts spent by government would rise but the potential growth of our dynamic civilian economy envisioned over the next decade should enable us to absorb the defense burden and emerge with a lower ratio of government spending to national output. The postwar expansion in output and real living standards is frequently cited as proof positive of this thesis.

The merit of this argument has been examined elsewhere and found wanting.[2] Decade by decade since the turn of the century government spending has outstripped the net gain arising from higher productivity, more efficient technology and ever greater capital investment. Our national income has now reached about $235 billion or well over thrice what it was in 1939. And yet even the hyper-stimulation of the past decade—activated by a debt expansion without historic parallel—was not sufficient to offset the mushrooming of governmental costs. As national income tripled, public spending quadrupled. The same pattern emerges, in retrospect, for the prosperous Twenties or the decades preceding.

Our past pattern of growth suggests an annual increment in national output of at maximum 3% or a conservative minimum of 2%. An annual improvement factor of $5 billion-$10 billion is dwarfed by the proposed longer-range defense program of the dimensions earlier indicated. Even after allowance for the contribution of unused capacity, longer hours of work and additional recruits to the labor force, it is obvious that all of the gains arising from higher productivity and advances in technology could not begin to offset the expansion of aramment outlays.

Partial War And Inflation

There remain numerous other sobering aspects of a prolonged program of expanded defense outlays. The longer the program, the greater the difficulty of returning to a lower level of government expenditures once international tensions have eased. After every great war in this nation's history, the subsequent rate of government spending in peacetime was at far higher levels than that which prevailed prewar. Shedding controls embedded in an economy over a decade may prove even more difficult than our recent experience of World War II. But overriding all other considerations is the implications of a decade of large-scale defense spending on the battle we have been waging against inflation, against further deterioration in the purchasing power of the dollar, and against a growing uneasiness over government securities.

The problems of dealing with the new inflationary pressures that have already arisen since K-Day, to say nothing of those in prospect under the longer-range program, are more sobering, if not alarming, than any I have thus far suggested.

We started from a very low price base in our last war effort. The inflation suppressed by the use of direct controls during the actual war years at first did not look alarming viewed against that background. But as the war moved on, pressure upon the price structure mounted until it broke through as open inflation. The sobering note to be kept foremost in mind is that this time we start from the crest of World War II inflation. Long-termwise, both retail and wholesale prices were already at an all-time high on K-Day; each index was above its zenith in any past inflation. Moving on to a still higher price level, whether retail or wholesale, could further undermine confidence in the dollar, in government securities, perhaps even in the stability of our government or its solvency. That in turn could bring on what some observers are already concerned about, continental inflation or a mass flight from the dollar.

Dealing with inflationary pressures currently may therefore require different treatment from that used in World War II. The basic procedure we followed at that time was designed primarily to suppress inflation. The function of suppression or damming up of price pressures that was perhaps well met by price control in the initial stages of World War II would be a poor model this time. This time, instead, we must attempt to beat down the forces making for price pressure as they arise—or preferably before they build up. That in turn requires a different approach or a combination of approaches to produce the needed results.

Three sides of the inflation question warrant consideration currently: First, the monetary side. It would seem that we have learned on that score from World War II. A national effort is building up to hold within bounds the expansion of the money supply and the monetization of debt. That can be entered on the plus or favorable side.

But price pressures are also coming increasingly from the cost side. There we seem to be hesitant, if not derelict, thus far in terms of formulating national policy. Wage increases have already been widespread, encouraged by cost-of-living adjustments, as well as by an attitude that wages lagged behind other sectors of the economy in the post-Korean upsurge. And so until wages are again "in balance" we postpone a wage stabilization program. Meanwhile, cost pressures continue to mount, and we are using up our grace period before further price pressure itself is generated by the hike in labor costs.

On the demand side also we have not yet adopted an active savings program or an interest policy which might foreclose the possibility of liquidation of accumulated assets or halt the rise in the velocity of spending. On balance, I would say we have made some progress in holding in restraint or beating down inflation from fiscal-monetary origins but little as yet on the cost-demand side.

Considerable reliance is placed this time upon a pay-as-you-go policy as a major anti-inflation weapon. Have we assigned too much weight to that program? Does it follow that if taxes are increased to match the rise in defense spending we thereby automatically reduce inflationary pressures?

Recall the arguments that went on over the inflationary gap during World War II. The excess of purchasing power over the supply of civilian goods always seemed small enough to be wiped out by a modest rise in taxes. That was the way it looked at least at the beginning of each period in which the gap was measured. But six months or a year later, despite the tax program we had adopted, we would find the inflationary gap mounting rather than decreased or held constant.

Pay-as-you-go involves not only consideration of the global aggregate required to close the gap, but also of the specific areas from which tax revenues are to be drawn, if the program is to succeed. Differing results are secured, depending upon whether the funds are drawn from the corporate sector, from the middle or upper income groups or from the base of the income pyramid which contains the bulk of nontaxable income currently.

Taxes ase too frequently viewed as having only one dimension—that is, they are viewed from the revenue side alone. There are other significant dimentions to taxes: restraint on consumption and the impact on production or maximum use of resources are two other vital considerations. Equity also merits attention, but in a period of national crisis those first names are more compelling. The emphasis on excess profits taxes accords with one test, namely, revenue. It falls far short of effectiveness, however, when appraised on the basis of its impact on production or effective maximum use of economic resources. Excise taxes, in contrast, warrant consideration on virtually all counts.

We need then to think in terms of a whole gamut of anti-inflation and tax policies. Some of them we did not adopt in World War II because they did not fit into that particular environment. This time if the chief reliance is to be placed on taxes in closing the inflationary gap, we must adopt increasingly a set of specific targets.

Price control assumes a far lower stature in the gamut of defense economy controls than it did in the defense economy period preceding World War II. This time we must deal with the root causes of price pressures rather than with damming them up through controls that at best gain just a bit more time in a program that may span a decade. National attention, focused as it is currently upon price controls may lead us to neglect other not necessarily complementary but perhaps primary avenues of reducing pressures upon the price level.

Possibilities of Economic Expansion

In closing, let me cite the findings of The Conference Board on the possibilities of future economic expansion, looking beyond the current crisis to the decades of the second half of the Twentieth Century.[3] We found that our growth potentials have much the same favorable promise as in our earlier history, including an expanding population, an unbroken future rise in family formation, abundant national resources in the main, and an ever-improving technology. Assuming as favorable an environment for enterprise as that which prevailed for a century and a half earlier, we placed the national output in 1970 at $500 billion (in 1949 prices). This could be achieved if productivity or output per man hour rose by 2% annually, the rate prevailing during the past half century.

The growth promised by the advocates of enlarged government spending is no greater than the actual record of accomplishment of the past when the enterprise of both management and labor was energized primarily by individual initiative and market forces. Those who advocate large-scale defense spending over an extended period as an instrument of economic expansion or social and economic reform have no monopoly on the goals of greater national output and a higher scale of living for the American people. The desirability of growth is not the point at issue, but rather the means. The use of defense spending as an instrument of economic reform or as a means of economic expansion would bring us further down the road of complete government intervention. We are already dangerously near the point of no return, according to the benchmarks left for us by those nations which have traveled the same road before us.

2 See "A Half Century of Government Spending," by John S. Sinclair, President The National Industrial Conference Board, available on request at the Board.

3 See the Board's "Economic Expansion: Patterns, Problems, Potentials," May, 1950.

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Observations . . .

hand, there is the generally recognized fact of dollar depreciation. But this is likely to continue as a long-term secular process, with many short-term interruptions reflected in sharp declines in the price of commodities as well as stocks. Nor even on the upside is the course of goods and equities necessarily synchronized. In 1946 the stock market effect of sharply rising commodity prices was outweighed by the fear of a business depression (which as a matter of fact, did not even materialize).

The importance of *timing*, and the inadequacy of equities as an inflation hedge over the short-term, is clearly evident from the empirical record. Over the long-term, since 1929 the intervening rise in commodity prices has occurred in the face of a 40% decline in the stock price average. There has been similar divergence between inflation and stock prices during shorter periods. Equity prices declined substantially between 1937 and 1942 and during the expansionary 1946-'48 interval.

Successful Parlay Required

So we see that a correct double-forecast (a kind of horse-race betting parlay) is needed. First the course of external inflation-deflation must be correctly gauged, and then additionally, its effect on the market must be correctly predicted (guessed).

The course of corporate earnings represents another factor concerning which one of these hazardous "parlays" is needed. Here again the forecaster cannot assume that a correct prediction of profits—itself difficult enough—is sufficient to furnish the key to the market's subsequent course. Between 1946 and 1947 the profits per share of the stocks comprising the Dow, Jones Industrial Average **rose** by 40% (from $13.63 to $18.80), yet the average high-low of their market price simultaneously **fell** by 7% (from 188 to 175).

Similarly in the case of individual industries, we see that the shares of distillers whose earnings have fallen by one-third or so since 1947, have nevertheless doubled in market price during the interval.

Keynesian Multiple-Degree Psychological Guesses

The above-cited disparities between the discernible economic factors and stock market movement highlight the forecaster's major difficulty in that he must correctly predict not only the course of events, but also the rest of the crowd's emotional reaction to those events. This process of psychology and style anticipation in the market place (akin to Machiavelli's Second Degree Lie), has been brilliantly described by Lord Keynes in his *General Theory* as follows:

> "Professional investment may be likened to those newspaper competitions in which the competitors have had to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitor, all of whom are looking at the problem from the same point of view. . . . It is not a case of picking those who, to the best of one's judgment are really the prettiest, or those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees."

So the investor relying on market forecasting must also be a successful psychologist and style merchandiser.

Forecasting Appeal Now at Peak

The appeal of forecasting for the investment community seems now to be at an all-time high. The current complexity of the "external" factors—as above cited—makes particularly appealing the *escape* provided by the "internal" market systems through pictorializing charts "tours-de-hindsight," etc. The wartime atmosphere stimulates the public's speculative spirit and confidence in trying to *beat-the-game*, as well as enhancing its enjoyment of the mental gymnastics.

And—as always in investing—*when* seems easier than *what* to determine.

When Versus What

This *"when versus what"* choice, then presents the crucial question. In other words, what importance is to be attached to the historical level in relation to valuing individual issues on a business-appraisal basis? What does one do when confronted with value opportunities at a time when the market is at an historically high level, or when one otherwise is disposed to expect a generally lower market-as-a-whole—or the converse?

The answer of this writer, on the basis of experience as well as logic, is unequivocally that **any time is a good time to buy a good value. Rigorous as it may be, such black-and-white decision must be made. Compromise means falling-between-the-two-stools of investment and speculation into frustrating confusion!**

Our Reporter's Report

The corporate section of the bond market still indicates the disposition of institutional investors to hold to a sideline position. Things have been dull and while prices have been firm the good tone is regarded as largely due to the dearth of offerings.

For the present institutions appear to be concerned chiefly with stocking up on realty mortgages before the effect of the new mortgage credit regulations really makes itself felt. As bond market observers see it, such buyers have been taking up this type of investment by the "wagon-load."

As has been the case for several months now the municipal market keeps pushing along because of its special situation arising from the new revenue bill and the belief that higher taxes are in prospect after the turn of the year unless there is a marked change in the world situation.

The tax-exempt market is still in the midst of a robust demand after a long period of stagnation which ended with the passage of the new tax bill and there has been substantial scaling down of the backlog which only a few weeks ago stood at record levels above the $200,000,000 mark.

As far as the corporate market is concerned conditions are spotty with some new issues meeting good repsonse while others are proving a bit on the laggard side. Investment interests still are keeping a weather-eye on the Federal Reserve for any action which may develop with regard to member bank reserve requirements.

Kaiser Steel Corp.

Dealers reported a brisk demand for the stock units of Kaiser Steel Corp. brought to market yesterday by one of the biggest underwriting groups formed in recent years.

Involving 1,600,000 shares of preferred stock and 800,000 shares of common each unit consists of one share of preferred and ½ share of common priced at $25. The preferred is to carry a $1.46 annual dividend rate.

The units will not be separable until Oct. 1, 1951 unless so ordered by the company's board. **The stock sale is part of an over-all financing of $125,000,000 including $60,000,000 of 3¾% first mortgage bonds due 1970, taken by a group of insurance companies, and $25,000,000 of bank credit.**

Demand Is Spotty

Elsewhere the market continues to be a spotty affair with some issues moving quickly while others show a tendency to move out slowly.

Tennessee Gas Transmission Corp.'s 100,000 shares of new preferred and 200,000 shares of additional common brought out on Tuesday was reported to have been taken up quite rapidly.

On the other hand Northern States Power Co.'s 175,000 shares of new preferred brought to market priced to yield 4% to the buyer, turned slow after a good start, attesting to the variable character of the current market.

Wait Better Market

Reflecting the current uncertainty marketwise Middle South Utilities Inc., has moved to withdraw its registration with the Securities and Exchange Commission covering 400,000 shares of common stock.

These shares were to have been offered to holders of the preferred issues of three subsidiaries as a part of the plan for refinancing the preferred stocks of those companies.

Since Middle South's board has decided to defer the refunding operation, directors concluded that best interests of its security holders would be served by withdrawing the registration at this time.

Calls for Bids

Three utilities have issued calls for bids on projected new issues. Niagara Mohawk Power Corp has set next Tuesday for the opening of bids on its $40,000,000 of new general mortgage bonds due in 1980.

Milwaukee Gas Light Co. has called for bids to be opened on Monday for $27,000,000 of new first mortgage bonds and $6,000,000 of sinking fund debentures.

The aforementioned bonds would mature in 1975 while the debentures would run for 20 years or until 1970.

Beil & Hough Formed

ST. PETERSBURG, Fla.—W. R. Hough and F. C. Beil, Jr., have formed Beil & Hough with offices at 23 Fourth Street to engage in a securities business. Mr. Beil was formerly with Thomson & McKinnon. Mr. Hough was a partner in Freeman, Hough & Co. of Fort Myers and prior thereto was with A. M. Kidder & Co.

Morgan Stanley Group Offers Alabama Power 4.60% Preferred Stock

Morgan Stanley & Co. and 22 associates on Oct. 20 offered publicly 100,000 shares of 4.60% preferred stock (par $100) of Alabama Power Co. at 102.20 per share, plus accrued dividends. The issue was awarded on Oct. 18 on a winning bid of $100.06 naming the dividend rate. Initial delivery is to be in the form of registered interim certificates authenticated by Irving Trust Co., as trustee.

The new preferred is redeemable at the option of the company at any time at prices scaled from $105.20 per share if redeemed on or before Oct. 1, 1955, to $104.20 per share after Oct. 1, 1960, plus accrued dividends.

Net proceeds of the sale will help finance the company's construction program, estimated to cost $63,500,000 during 1950 through 1952. The chief item in the program will be $24,000,000 for the construction of two 100,000 kw. steam-electric generating units at Gorgas, Ala. Upon completion of the program, the company's rated generating capacity will be boosted from the present level of 839,560 kw. to 1,135,560 kw., including both steam and hydro plants.

Alabama Power Co., a subsidiary of The Southern Co., generates and sells electricity to over 500,000 customers (directly or through other distributors, including its subsidiary, Birmingham Electric Co.) in nearly 600 cities and towns in Alabama, including Bessemer, Birmingham, Gadsden, Mobile, Montgomery and Tuscaloosa.

For the 12 months ended May 31, 1950, the company reported total revenues of $58,353,074 and net income of $9,309,176—both figures on a consolidated basis, reflecting the acquisition of Birmingham Electric Co. in August, 1950.

With Dempsey-Tegeler

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Fred J. Radwick has become affiliated with Dempsey-Tegeler & Co., 210 West Seventh Street.

With King Merritt

(Special to The Financial Chronicle)

LOS ANGELES, Cal.—John R. Martin and Lloyd Vadasz are with King Merritt & Co., Inc., Chamber of Commerce Bldg.

With Barrios Investments

(Special to The Financial Chronicle)

ST. PETERSBURG, Fla.—David E. Manasco is with Barrios Investments, Florida Theatre Bldg. He was formerly with Union Finance Co.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Within a few weeks there will be completed a thorough revamping of the personnel of the Reconstruction Finance Corp., from directors through key subordinate administrative and policy-making posts.

This will convert the big lending agency into what the Truman Administration doubtless would regard as a "thoroughly reliable" Federal activity. This should clean out any vestiges of "banker snootiness" toward deserving clients referred to the RFC variously by the coordinator of defense controls, the Democratic National committee, lawyer friends of the Democratic committee, or the White House.

After that revamping is completed, and the process is now going on a pace, it is likely that the biggest problem which RFC will have to face is to whom it should pay the greatest attention, the White House, the Democratic committee, or Mr. W. Stuart Symington.

The new Board is now emplaced, and its membership is distinguished by the Truman Administration philosophy that its policy-making officials shall be noted more for their party or ideological affiliation than for their accomplishments in the business or banking worlds.

So with the new "special manager" about to be appointed. He is Arthur Merritt, publicity man, who has been sitting in an elaborate office, elegantly furnished with an ornate desk, and all the latest office equipment, complete with a "Who is calling please?" secretary. While earning $10,000 plus per year, Mr. Merritt did not always please the press or some of the former directors of the RFC, but he does have at least One Friend at the White House, which is the most important criterion currently for success in this town.

Before entering public life, Mr. Merritt did have some private business experience. He was an order clerk in Milwaukee for the Standard Oil Co., of Indiana. He also was once assistant cashier of the First National Bank of Stuttgart, Ark.

Since then Mr. Merritt has made his career a public one. He worked on and off in the Comptroller of the Currency's office as a receiver of insolvent banks. Later, in 1930, he became an assistant vice president of the Federal Land Bank of New Orleans, and had worked up to a vice president and treasurer of the Federal Land Bank of Columbia, S. C., before he left in 1935 to become an examiner for the RFC. Later he became an administrative assistant at the RFC, and finally, its alleged press contact man.

And he was born in Missouri.

Another step which the RFC has taken to align its personnel to the proper thinking on matters is the "reduction" in its administrative budget by $7,000,000. In these days a reduction in budget, such as that which was one of the first acts of the new RFC board, makes political sense even when it is inevitable that under the military expansion program the agency will be expanded rather than contracted.

By first reducing a budget before you expand it, you make it possible to weed out personnel you don't like. In this case the $7,000,0000 cut will temporarily make it possible to reduce the staff by one person in four. This ought to eliminate any persons in positions of administrative responsibility who, because of an association with a long RFC tradition of good business judgment, might prove to be intractable to the new RFC Board.

After these are fired, then the RFC can expand its activities to meet the needs of defense lending with what the directors would consider as just the right sort of people.

* * *

In his press conference remarks at the beginning of this week Mr. Symington in effect gave the seal of "official" to his remarks made a week ago in an exclusive national magazine interview.

The substance of those remarks is that credit and materials controls shall, please God be willing, be used to avoid wage and price controls.

This explains a couple of things. Disinterested observers believed that consumer credit regulations which the Federal Reserve Board reluctantly and at Mr. Symington's insistence adopted, were premature. In other words, the thought was that they would shut off a great deal more of the market for autos and appliances than would need to be cut off as yet by materials controls. So that's OK, Mr. Symington in effect says. Credit controls become materials controls as well as credit controls. It also throws light on the disposition to crack down on real estate credit.

This explanation also makes clear the speed with which NPA is rushing into materials controls. Even the most sanguine, and incidentally key placed controllers, did not as recently as a couple of weeks ago, anticipate limitation orders until near the end of this year. The story was put out about prospective use limitations on aluminum before the industry was consulted.

NPA is still mostly without even key men except in metals. It has as yet only a preliminary and tentative bill of materials requirements for the balance of this calendar year. And while some tentative materials requirements for the military program for the first half of calendar 1951 may have been transmitted by today to NPA, all these requirements schedules are in an exceedingly tentative and formless state, being the educated guesses of the Munitions Board rather than the former situation of educated guesses of other government economists.

Nevertheless, the drive is very obviously to shut off a great deal of civilian production even before, months before, military production gets rolling. This will release labor and materials, so goes the Symington assumption, for war production, will ease inflation pressures.

Hence the Symington line would seem to forecast fast and frequent and possibly half-baked orders designed to shut down civilian production.

Mr. Symington also presumes that much higher taxes will be enacted, something which is far from a sure prospect unless war breaks out somewhere else. Business taxes almost surely will be raised somewhat, and personal income taxes a little, next year. It may be doubted, however, that Congress will be disposed to pay for the military production of $30 billions which Mr. Truman forecasts will be going by fiscal 1952.

The Symington drive to avoid wage and price controls is not now viewed as merely an election strategy, to be dropped after Nov. 7. The reason seen behind this drive is this: If wage and price controls can be avoided, perhaps the greatest opposition to an enlarged military program, notwithstanding the apathy following the end of hostilities, can be avoided.

It has been impressed upon the controllers that despite the shouting of the CIO for price control, that price control is exceedingly unpopular with masses of voters. Wage control, of course, is unpopular with the big labor unions. And farmers already are taken care of with the promise of expanded production at higher and and higher guaranteed prices.

So the main voting elements might be placated by the avoidance of wage and price controls, leaving a minority relatively of the population, hit most directly by hasty production limitations.

* * *

Mr. Symington also indicated that his "super board" of control advisers counts among its membership, Leon Keyserling, Chairman of the President's Council of Economic Advisers. It has long been suspected outside Mr. Symington's office that the latter was leaning heavily upon Mr. Keyserling for economic advice.

* * *

Commerce department is reviewing the export situation in all the 32 scarce commodities made the subject of the inventory order. The fixing of a quota upon copper exports, licenses for which were suspended pending the setting of quotas, was expected momentarily at writing.

In determining whether to set quota limitations on export of scarce materials or articles made of scarce commodities, Commerce has a twin dilemma. On the one hand if it fails to limit exports, it has to work up a good justification for allowing the exports when the materials are controlled as to use domestically. On the other hand, if Commerce does apply quotas it has to convince exporters that these are necessary.

It is indicated that there will be quite a bit of export quota news from now on.

* * *

The situation with respect to procuring aluminum for Munitions Board stockpile presents a problem which is typical of even only one phase of the materials control program.

The munitions Board has decided upon an unrevealed quantity of aluminum as the amount it wants stockpiled regardless of what it does to the aluminum picture. Three alternative methods of procurement have been worked out, and it is not yet known which one will be selected.

Canada has made a firm offer at a secret price to supply the aluminum for stockpile.

Some 270 million pounds on an annual basis can be supplied by the domestic industry if the government will pay from 2 to 4 cents above the market price to pay for the higher cost of the marginal production, the cost of electricity in the areas concerned being so high as to make this marginal.

Finally, in response to offers from the Munitions Board to industry to increase production, all the stockpile needs could be supplied out of increased capacity if the government made forward contracts, advanced on those contracts, and perhaps made some loan guarantees.

Any stockpiling will be inflationary if purchased in the U. S., in the sense of paying out money for dead stocks. On the other hand, does the U. S. want to encourage the relatively big aluminum industry in Canada at the expense of retarding expanded production in the U. S.?

Aluminum will be very tight, for more aluminum is now used per aircraft than in War II, and there are dozens of prospective brand new war uses for this metal.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Well, there she goes again — getting ready to put the bite on me for another raise!"